Glenn Hegar Texas Comptroller of Public Accounts

Comprehensive Annual Financial Report 2016

For the State of Texas for the Fiscal Year Ended August 31, 2016

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Acknowledgments

The Comprehensive Annual Financial Report was prepared by the Financial Reporting section of the Texas Comptroller of Public Accounts with assistance from other sections within the Fiscal Management, Revenue Estimating and Communications and Information Services divisions.

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Special Appreciation To:
All accounting and budget personnel of state agencies and institutions of higher education whose extra time and effort made this report possible.

The State Auditor's Office auditing staff

State of Texas
Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2016

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Section One
Introductory Section

February 28, 2017

To the Citizens of Texas, Governor Abbott
and Members of the 85th Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2016, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

The reporting approach established by the Governmental Accounting Standards Board (GASB) was utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The State Auditor's Office performed an audit, in accordance with generally accepted auditing standards, of the state's general-purpose financial statements. Their opinion is presented in this report preceding the financial statements.

The State Auditor's Office contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The federal portion of the Statewide Single Audit Report for the fiscal year ended Aug. 31, 2016, with the opinion expressed by KPMG, will be issued separately.

Profile of the Government

This report includes financial statements for the state of Texas reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include legal standing and financial accountability. Other organizations that would cause the financial statements to be misleading or incomplete if they were excluded are also included in the reporting entity. Note 1 of the notes to the financial statements provides detail on the financial reporting entity. Note 19 provides a brief summary of the nature of significant component units and their relationship to the state of Texas.

All activities generally considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement state contributions.

The management discussion and analysis (MD&A) in the financial section provides an overview of the state's financial activities, addressing both governmental and business-type activities reported in the government-wide financial statements.

Accounting System and Budgetary Controls

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered into the statewide accounting system after the General Appropriations Act becomes law. All governmental funds are appropriated for a biennium, except for appropriations related to construction, which are appropriated for five years. The General Appropriations Act becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state, other than the MD&A section, is found in the required supplementary information.

Financial Policies

Fiscal soundness is an unwavering principle that guides the financial policies of the state. The Texas Constitution supports responsible governance by mandating several limitations on the budgeting process. In addition to the certification process requiring passage of a balanced budget in Article III, Section 49a, budget growth and indebtedness are also limited. According to Article VIII, Section 22, appropriations from state tax revenue not dedicated by the Texas Constitution cannot grow faster than state economic growth estimated by the Legislative Budget Board. Payments required for debt cannot exceed 5 percent of the previous three-year average of nondedicated general revenue as provided in Article III, Section 49j.

The economic stabilization fund (ESF), commonly called the "rainy day fund," authorized in 1988 by the Texas Constitution, Article III, Section 49g, is yet another example of prudent governance. The Comptroller may transfer ESF amounts to the general revenue fund to prevent or eliminate temporary cash deficiencies. Any amounts transferred to general revenue shall be returned to the ESF with interest as soon as practicable, but no later than Aug. 31 of each odd-numbered year. The Legislature may appropriate, by a three-fifths vote of the members present in each house, amounts in the ESF for spending that does not exceed the amount of any unanticipated deficit or revenue decline during a biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house. The ESF shall receive a transfer, not later than the 90th day of each biennium, from the general revenue fund for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The ESF also receives transfers, not later than the 90th day of each fiscal year, from the general revenue fund for at least 50 percent of the 75 percent of the prior fiscal year

oil or natural gas production tax revenue that exceeded the amount of collections in fiscal 1987. The remaining amount is transferred to the state highway fund as directed by the passage of a constitutional amendment known as Proposition 1 in the November 2014 election. The amendment did not create any new taxes or fees.

The balance in the fund on Aug. 31, 2016, was $10.2 billion. The ESF is also discussed in Note 13.

Economic Outlook

Texas possesses advantages such as relatively low living costs, an attractive business climate, a central Sunbelt location, and a balanced mix of industries that have enabled it to grow faster than the nation in most years. However, the recent fall in oil and natural gas prices and the resulting reduction in related economic activity, is expected to slow the rate of growth of the Texas economy in 2017. After 4.8 percent growth in 2015, the Texas economy, as measured by real gross state product (GSP), is estimated to have grown by 0.1 percent in 2016 and is projected to grow by a further 3.0 percent in 2017.

After increasing by 4.5 percent in 2015, Texas personal income is estimated to have grown by 2.7 percent in 2016 and is projected to grow by a further 4.9 percent in 2017. Underlying this income growth is growth in Texas population. Recent estimates by the U.S. Census Bureau show that five of the nation's 15 most rapidly growing large incorporated cities are in Texas, where total state population is expected to grow by 1.7 percent in 2017, to 28.4 million.

The Texas unemployment rate has increased slightly over the year, from an average of 4.3 percent in 2015 to 4.6 percent in 2016. The rate has been climbing in recent months and is projected to average 4.5 percent in 2017.

Total Texas nonfarm employment grew by 2.4 percent in 2015 and is estimated to have grown by 1.6 percent in 2016. In 2017, Texas nonfarm employment growth is projected to be 1.8 percent.

Growth in Texas' GSP, personal income and employment will be in line with the nation as a whole, but will be significantly slower than during the rebound from the Great Recession. Texas' unemployment rate will remain low, but is not expected to decrease significantly from the current level.

Texas Industry Performance

Goods-producing industries' employment declined by 2.9 percent over the past 12 months, while employment in service-producing industries grew by 2.6 percent. Employment declines in the goods-producing industries were led by mining and logging (down 29,200 jobs) and manufacturing (down 24,000 jobs), while employment growth in the service-providing industries was led by education and health services (up 66,300 jobs) and leisure and hospitality (up 49,000 jobs). The industry that saw the largest employment growth rate was educational and health services (4.1 percent), while the mining and logging industry had the greatest rate of decline (-11.4 percent).

Manufacturing

According to the U.S. Census Bureau, the value of Texas exports in 2015 was $251 billion, a decrease of 13.1 percent from 2014. Through November 2016, Texas exports had fallen by 8.2 percent from the corresponding period of 2015, hurt by falling oil prices and a stronger dollar. However, Texas is the nation's leading exporting state, a position held since 2002.

Construction

Despite the increase in sector employment, housing activity has decreased moderately over the past year. Total single-family building permits issued in the year ending November 2016 were up 1.1 percent from the year ending November 2015, while multi-family build-

ing permits were down 19.8 percent. According to Multiple Listing Service data from the Texas A&M Real Estate Center, the median sales price for an existing Texas single-family home rose 10.9 percent over the last year, from $192,000 in November 2015 to $213,000 in November 2016. The inventory of existing homes for sale in November 2016 was only 3.6 months, up slightly from a year ago, but a substantial improvement from the recent high of 8.7 months in mid-2011.

Mining and Logging

Texas oil production peaked more than 40 years ago in 1972, when calendar year production reached 1,263 million barrels. Production volumes reached a low of 343 million barrels in calendar 2007. In 2016 production reached 852 million barrels. In addition to the substantial exploration and production activities within the state and in the Gulf of Mexico, Texas is the headquarters for many of the nation's largest oil and natural gas refining and distribution companies, and has a large number of energy-related jobs in other industries associated with those activities. The recent fall in oil and gas prices has had significant negative effects on those industries as well.

Major Legislative Initiatives

The 2015 session of the Texas Legislature enacted a variety of new laws affecting state revenues and finances. Legislation in the following areas is expected to have significant revenue implications.

Property Tax Relief

Relief from school property taxes was provided by increasing the amount of the residence homestead exemption. Property value that can be excluded from tax increased from $15,000 to $25,000. Thus a school district would tax a residence appraised at $200,000, for instance, at a value of $175,000 which is additional 5 percent reduction from the previous exemption. Since the amount of the exemption is established in the state constitution, Texas voters approved an amendment making the change in November 2015. The state is required to supplement the difference in funding to school districts, which rely heavily on property tax revenues. As a result, the state will provide local districts with supplemental funding of $1.2 billion in the next two years, and more thereafter.

Franchise Tax

The state reduced the franchise or "margin" tax rate by 25 percent. This change could save businesses across the state up to $1.3 billion in fiscal 2016. The franchise tax accounted for approximately 9.3 percent of all Texas tax collections in 2014, or more than $4.7 billion. This change will reduce state revenues by approximately $2.6 billion in the 2016-2017 biennium, mostly from the state's Property Tax Relief Fund.

Tax Repeals

In the 2015 session, the Legislature repealed several outdated tax laws. These were identified by the Comptroller and recommended for repeal to ease the tax burden on businesses and make tax administration more efficient. The tax laws repealed are as follows:

- service fee on alcoholic beverages served on commercial planes and trains
- bingo gross rentals tax
- controlled substances tax
- state inheritance tax
- regulatory tax and fee assessment on the production of crude oil
- sulphur production tax
- fireworks tax
- liquefied gas tax *(compressed and liquefied natural gas delivered directly to vehicle fuel tanks remain taxable)*

The minor taxes and fees repealed represent a revenue cost of only about $17.4 million in the 2016-2017

biennium, an amount that will be more than made up by redeploying Comptroller resources to enforce other Texas taxes.

Prekindergarten Grants

The High Quality Prekindergarten Grant Program was established to provide up to $130 million in 2016 and 2017 for state grants to support pre-k programs in public schools and open-enrollment charter schools. School districts and charters can receive this funding for students who are four years of age as of September 1 of each year. The grant amounts, to be determined by the state's commissioner of education, can reach up to $1,500 per student per school year.

The grant program is funded only for the 2016-2017 biennium. Additional appropriations would be needed to continue the program in 2018 and beyond. The Legislative Budget Board's estimate for this assumes complete use of the grant funding in 2016 and 2017 as well as the expenditure of some administrative costs, for a total cost of about $131.2 million.

State Contracts

Several measures were passed to enhance state contracting reporting and data collection inside the Comptroller's office and other oversight agencies.

The first measure concerns the Texas Comptroller's vendor performance tracking system, which collects agency feedback on vendors after contract completion or termination. The Comptroller will be required to assign vendor "grades," based on agency input, ranging from A to F. The Comptroller's office is establishing rules on how a vendor's rating will affect its eligibility to continue contracting with state agencies. The performance tracking system and new rating information will be made available to the public on the Comptroller's website.

The second measure changes the data collection process for the state's centralized accounting and payroll/personnel system (CAPPS). Agencies are now required to provide specific contract data to CAPPS, including statements of work, financial information and summaries of the processes used to award each contract. By the end of fiscal 2017, the Comptroller's office anticipates 51 agencies will be using CAPPS for their financial system, accounting for 87 percent of all state agency spending.

Also included in the measures is the requirement for the State Auditor's Office to consider auditing Health and Human Services Commission contracts that exceed $100 million annually. Other measures include required posting of contract information on state agency websites for transparency purposes; increased ethics training; and a two-year prohibition on any vendor employment of former state workers who participated in purchases made with that vendor. The Comptroller's office and the Governor's office will work together to study the feasibility of consolidating state purchasing functions and reducing the number of vendors that work with the state.

Although the Legislative Budget Board cannot provide a definitive cost due to the sheer number of state contracts and vendors in Texas, it does estimate that the higher administrative costs for the revised vendor performance tracking system and additional legal assistance at the Comptroller's office, as well as additional agency costs associated with posting contract information online will be about $4.3 million over fiscal years 2016 and 2017.

Transportation

A constitutional amendment approved by Texas voters in November 2015 will dedicate some state sales tax and motor vehicle sales tax revenues to the state highway fund. In fiscal 2018 and thereafter, the Comptroller will credit to the fund up to $2.5 billion annually from the net sales tax revenue that exceeds the first $28 billion of revenue collected.

Beginning in fiscal 2020, the Comptroller will also transfer to the fund 35 percent of each year's net revenue from the motor vehicle sales tax that exceeds the first $5 billion of revenue collected. The funds transferred must be used for building and maintaining public roadways, acquiring rights of way or repaying bonds issued for highway improvement projects.

There is no significant impact in the 2016 and 2017 biennium. Thereafter, it will reduce the general revenue fund balance but produce an equivalent gain to the state highway fund.

Awards and Acknowledgments

Certificate of Achievement

The GFOA of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its Comprehensive Annual Financial Report for the fiscal year ended Aug. 31, 2015. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

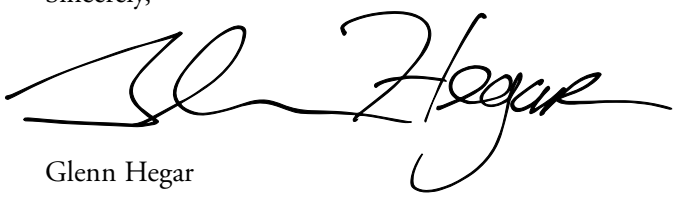
A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 26 years (fiscal years ended August 1990 through 2015). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of the Comptroller's Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,



Glenn Hegar

State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive

Greg Abbott
Governor

Dan Patrick
Lieutenant Governor

Glenn Hegar
Comptroller of Public Accounts

Ken Paxton
Attorney General

George P. Bush
Land Commissioner

Christi Craddick
David J. Porter
Ryan Sitton
Railroad Commissioners

Sid Miller
Commissioner of Agriculture

Legislative

Lieutenant Governor Dan Patrick
President of the Senate

Joe R. Straus
Speaker of the House of Representatives

Judicial

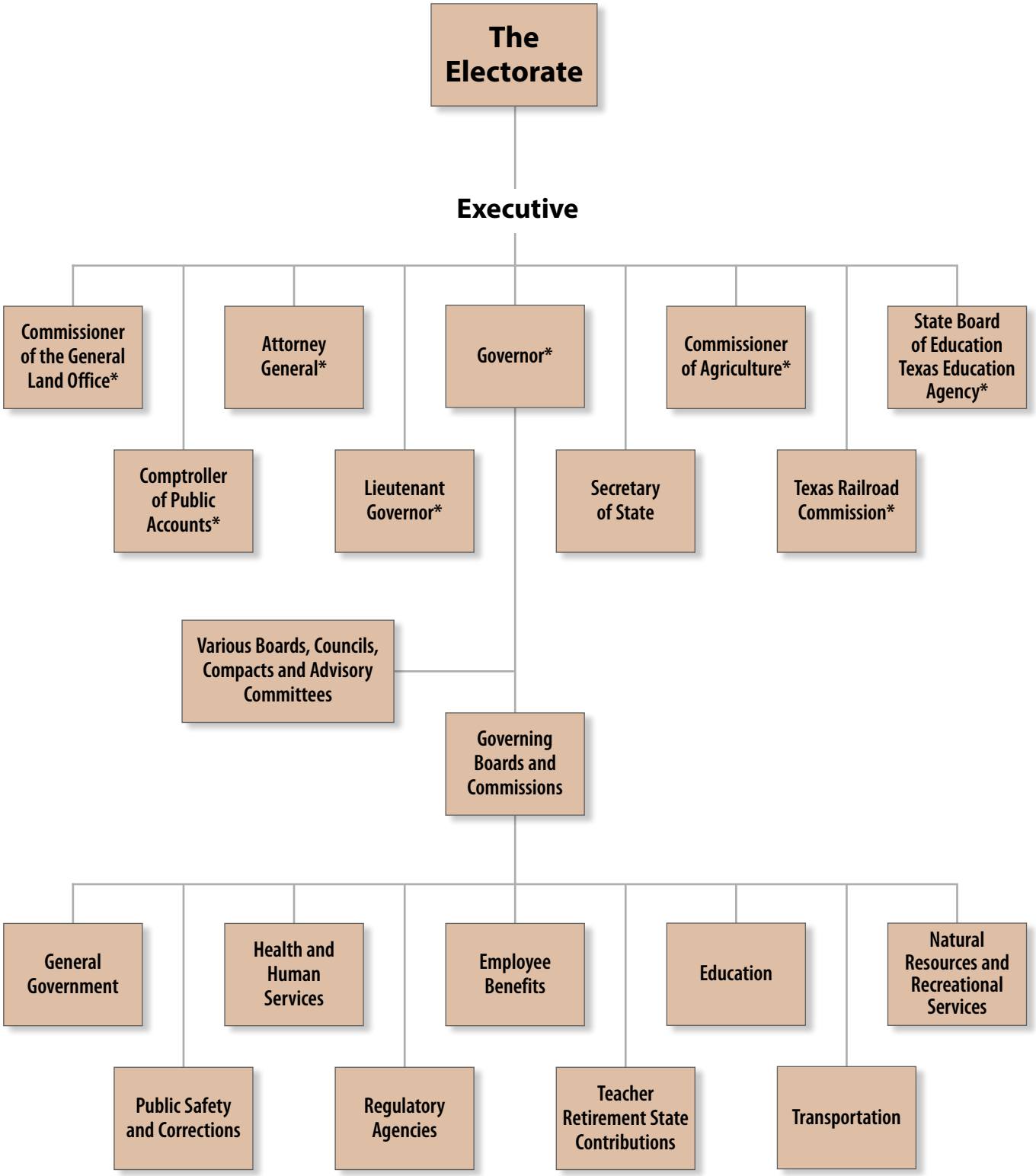
Supreme Court of Texas

Nathan L. Hecht, Chief Justice
Jeff Brown, Justice
Jeffrey S. Boyd, Justice
John Devine, Justice
Paul Green, Justice
Eva M. Guzman, Justice
Phil Johnson, Justice
Debra Lehrmann, Justice
Don R. Willett, Justice

Court of Criminal Appeals

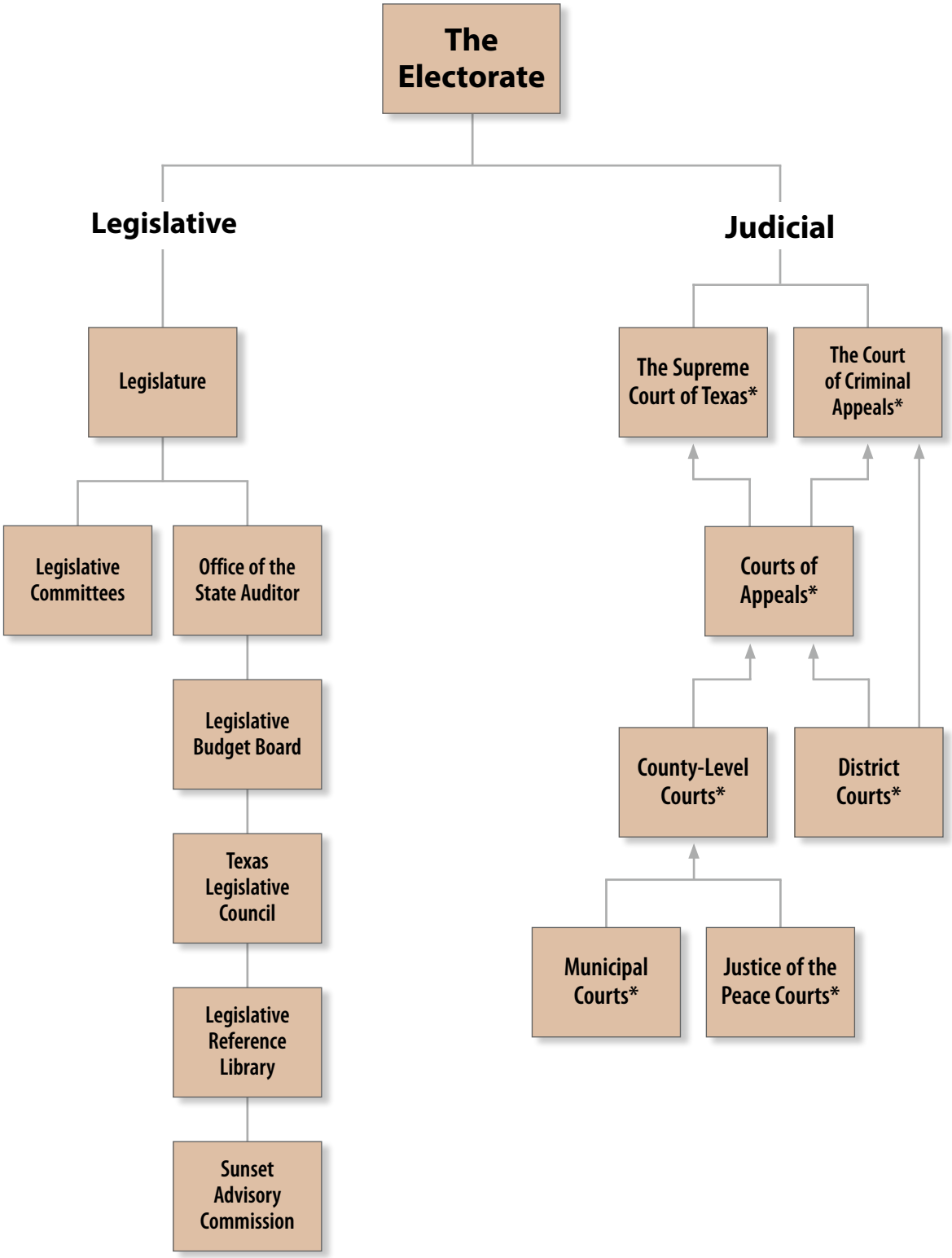
Sharon Keller, Presiding Judge
Elsa Alcala, Judge
Barbara Parker Hervey, Judge
Cheryl Johnson, Judge
Michael E. Keasler, Judge
Lawrence E. Meyers, Judge
David Newell, Judge
Bert Richardson, Judge
Kevin Yeary, Judge

Government Structure of Texas



* Elected Offices

Government Structure of Texas (continued)



* Elected Offices

Government Finance Officers Association

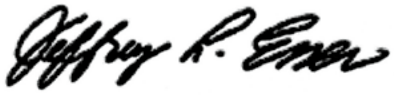
Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2015



Executive Director/CEO

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Independent Auditor's Report

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We did not audit the financial statements of the following entities:

- The Texas Department of Transportation, a component of the State of Texas, which is included in the governmental and proprietary funds. The Texas Department of Transportation constitutes 99.6 percent of the expenditures for the State Highway Fund, a major governmental fund. The Texas Department of Transportation also constitutes 59.6 percent of the assets of governmental activities.
- The University of Texas System, a component of the State of Texas, which constitutes 71 percent of the assets of Colleges and Universities, a major enterprise fund. The University of Texas System also constitutes 57 percent of the assets of the business-type activities.
- The Texas Lottery Commission, a component of the State of Texas, whose Lottery Fund is a major enterprise fund that constitutes 18 percent of the operating revenues of the business-type activities.

SAO Report No. 17-318

The statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas, as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Economic Stabilization Fund

As discussed in Note 13, the Economic Stabilization Fund balance was $10.2 billion as reported in the governmental fund financial statements as unassigned fund balance as of August 31, 2016. That amount consisted primarily of $7.9 billion in cash in the State Treasury, $1.8 billion in current and non-current investments, and $439.5 million due from the General Revenue Fund. The $439.5 million due from the General Revenue Fund was transferred to the Economic Stabilization Fund in November 2016.

Investments with Values that Are Not Readily Determined

As discussed in Note 3, the financial statements include certain investments valued at approximately $93.7 billion as of August 31, 2016, whose fair values have been estimated by management in the absence of readily determinable fair values.

As discussed in Note 14, the State restated its beginning net position and fund balance as of September 1, 2015, to reflect the effect of implementation of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. As a result, the State restated the amount for sovereign lands, previously recorded at historical cost, at fair value with a $1.9 billion restatement increase in the permanent school fund and governmental activities and a $5.3 billion restatement increase in the colleges and universities fund and business-type activities.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, the schedules of net pension liability, and the schedules of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the State's basic financial statements. The combining financial statements and schedules, introductory section, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Lisa R. Collier

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

February 21, 2017

Section Two (continued)

Management's Discussion and Analysis

Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2016. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2016 report.

Highlights

Government-wide

Net Position

The assets and deferred outflows of resources of the state of Texas exceeded its liabilities and deferred inflows of resources by $159.4 billion as of Aug. 31, 2016, an increase of $11.7 billion or 7.9 percent from fiscal 2015. The majority of the increase is primarily due to an increase of $13.8 billion in restricted net position. The net position is comprised of $84.1 billion in net investment in capital assets, $89.7 billion in restricted and negative $14.4 billion in unrestricted.

Fund Level

Governmental Funds

As of Aug. 31, 2016, the state's governmental funds reported a combined ending fund balance of $64.8 billion, an increase of $118 million or 0.2 percent from fiscal 2015, primarily due to an increase in investments. The state reported a positive unassigned fund balance of $7.7 billion in fiscal 2016.

Proprietary Funds

The proprietary funds reported a net position of $60.6 billion as of Aug. 31, 2016, an increase of $7.2 billion or 13.5 percent from fiscal 2015, primarily due to an increase in interest and investment income and a restatement due to the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*.

Long-Term Debt

The state's total bonds outstanding increased by $3 billion or 6.8 percent during fiscal 2016. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2016, the state issued bonds totaling $7 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial position and activities in four parts:

- MD&A (this part)
- The basic financial statements
- Required supplementary information other than MD&A
- Other supplementary information presenting combining statements and schedules

The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements, which provide more detailed information to supplement the basic financial statements.

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the

statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net position combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources.

Net position represents one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-type and component units). These costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net position and the statement of activities divide the state's activities into the following three types.

Governmental Activities

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement state contributions, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services. Taxes, fees and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's institutions of higher education are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state has 27 discretely presented component units. Financial information for these entities is presented separately in the supplemental statements and in the notes.

Reporting on the State's Most Significant Funds

Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide financial statements due to the perspective and basis of accounting used. Funds are presented on the fund-level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on the flow of money into and out of the funds and amounts remaining at fiscal year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures

cash and other assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information helps determine the level of resources available for the state's programs. The reconciliations following the fund financial statements explain the differences between the governmental activities column reported on the government-wide statement of net position and the government-wide statement of activities and the governmental funds reported on the fund financial statements. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

The employees life, accident and health insurance benefits fund is reported as an internal service fund and provides services on a cost reimbursement basis to other agencies of the financial reporting entity.

Colleges and universities, the unemployment trust fund and the lottery fund are reported as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. The activities are reported separately from other financial activities because the state cannot use the assets to finance its operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Position

Total assets of the state as of Aug. 31, 2016, were $290 billion, an increase of $19.8 billion or 7.3 percent. Total liabilities as of Aug. 31, 2016, were $120.8 billion, an increase of $6.9 billion or 6.1 percent. Net position was affected by a number of factors. Cash and cash equivalents on the Statement of Net Position decreased by $5.6 billion in governmental activities, but increased by $449.4 million in business-type activities from fiscal 2015. Unrestricted noncurrent investments increased by $7.1 billion. The state's bonded indebtedness was $47.1 billion, which included new issuances of $7 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately $4.5 billion in bonded debt was retired or refunded. Net position was $159.4 billion in fiscal 2016, an increase of $11.7 billion or 7.9 percent. Of the state's net position, $84.1 billion was net investment in capital assets, while $89.7 billion was restricted by the state constitution or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was negative $14.4 billion. The majority of the net position increase is primarily due to an increase of $13.8 billion in restricted net position.

Statement of Net Position

August 31, 2016 and 2015 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
ASSETS						
Assets Other Than Capital Assets	$ 76,443,239	$ 76,761,288	$ 83,614,887	$ 73,883,287	$ 160,058,126	$ 150,644,575
Capital Assets	100,010,365	91,006,365	29,908,475	28,546,049	129,918,840	119,552,414
Total Assets	176,453,604	167,767,653	113,523,362	102,429,336	289,976,966	270,196,989
DEFERRED OUTFLOWS OF RESOURCES	6,183,264	4,665,492	1,654,463	1,260,119	7,837,727	5,925,611
LIABILITIES						
Current Liabilities	12,063,725	12,143,525	11,983,521	12,236,632	24,047,246	24,380,157
Noncurrent Liabilities	54,833,681	52,523,681	41,952,704	37,022,613	96,786,385	89,546,294
Total Liabilities	66,897,406	64,667,206	53,936,225	49,259,245	120,833,631	113,926,451
DEFERRED INFLOWS OF RESOURCES	16,995,010	13,479,287	593,603	1,009,206	17,588,613	14,488,493
NET POSITION						
Net Investment in Capital Assets	72,247,981	70,898,289	11,847,190	11,571,493	84,095,171	82,469,782
Restricted	46,941,168	42,674,520	42,741,330	33,218,190	89,682,498	75,892,710
Unrestricted	(20,444,697)	(19,286,157)	6,059,477	8,631,321	(14,385,220)	(10,654,836)
Total Net Position	$ 98,744,452	$ 94,286,652	$ 60,647,997	$ 53,421,004	$ 159,392,449	$ 147,707,656

Changes in Net Position

The state's net position as of Aug. 31, 2016 increased by $11.7 billion. The state earned program revenues of $93.4 billion and general revenues of $51.1 billion, for total revenues of $144.4 billion, an increase of $6.3 billion or 4.6 percent from fiscal 2015. The major components of this increase were tax revenues, which had a decrease of $4.2 billion and operating grants and contributions, with an increase of $8.2 billion. Federal revenues increased $2.4 billion and interest and investment income increased $5.1 billion.

The expenses of the state were $140.4 billion, an increase of $6.7 billion or 5 percent. The expense fluctuations in governmental activities are largely attributable to a $3.8 billion increase in health and human services and a $1.1 billion decrease in education services. In business-type activities there was a $2.1 billion increase in education services.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds.

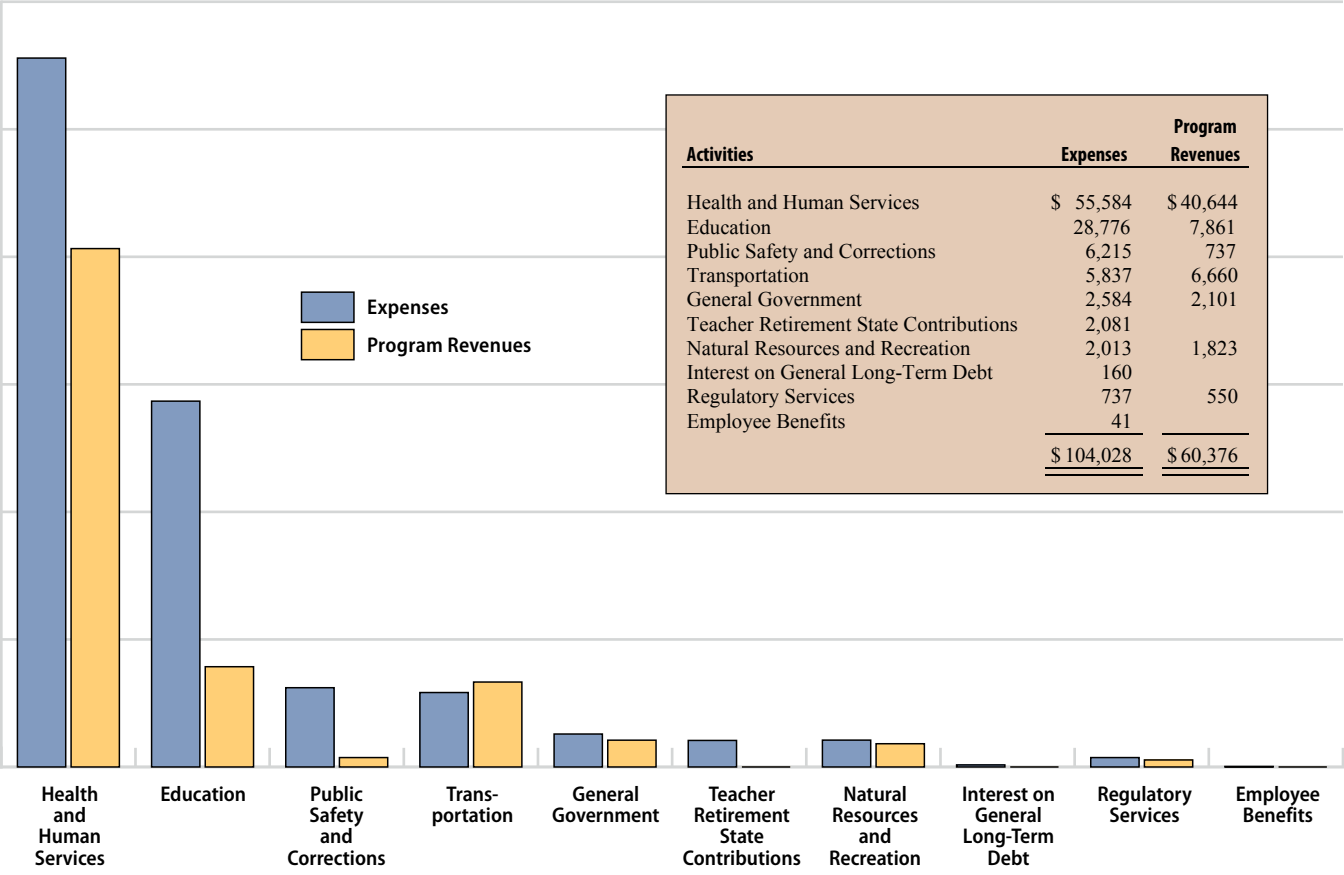
Changes in Net Position

For the Fiscal Years Ended August 31, 2016 and 2015 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues:						
Charges for Services	$ 10,967,002	$ 9,878,338	$ 23,026,272	$ 21,876,408	$ 33,993,274	$ 31,754,746
Operating Grants and Contributions	49,361,737	43,731,463	9,883,197	7,327,924	59,244,934	51,059,387
Capital Grants and Contributions	47,373	71,237	68,313	131,714	115,686	202,951
Total Program Revenues	60,376,112	53,681,038	32,977,782	29,336,046	93,353,894	83,017,084
General Revenues:						
Taxes	47,534,436	51,773,006			47,534,436	51,773,006
Unrestricted Investment Earnings	282,493	153,316	142,738	67,089	425,231	220,405
Settlement of Claims	670,386	590,685	848	306	671,234	590,991
Gain on Sale of Capital Assets	54,797	50,749	1,044	40,440	55,841	91,189
Gain on Other Financial Activity	(59,904)	22,266			(59,904)	22,266
Other General Revenues	2,259,154	2,171,101	175,050	186,006	2,434,204	2,357,107
Total General Revenues	50,741,362	54,761,123	319,680	293,841	51,061,042	55,054,964
Total Revenues	111,117,474	108,442,161	33,297,462	29,629,887	144,414,936	138,072,048
EXPENSES						
General Government	2,583,707	3,672,395	121,463	113,069	2,705,170	3,785,464
Education	28,775,870	28,057,482	28,555,418	26,443,474	57,331,288	54,500,956
Employee Benefits	40,546	7,064	1,584		42,130	7,064
Teacher Retirement State Contributions	2,080,935	2,735,913			2,080,935	2,735,913
Health and Human Services	55,584,169	51,792,158	3,145,846	2,585,461	58,730,015	54,377,619
Public Safety and Corrections	6,214,653	5,779,455	99,414	98,032	6,314,067	5,877,487
Transportation	5,837,122	5,088,956	352,735	251,897	6,189,857	5,340,853
Natural Resources and Recreation	2,013,773	2,167,711	392,417	279,335	2,406,190	2,447,046
Regulatory Services	737,203	488,780			737,203	488,780
Interest on General Long-Term Debt	159,953	814,564			159,953	814,564
Lottery			3,665,907	3,296,218	3,665,907	3,296,218
Total Expenses	104,027,931	100,604,478	36,334,784	33,067,486	140,362,715	133,671,964
Excess (Deficiency) Before Contributions and Transfers	7,089,543	7,837,683	(3,037,322)	(3,437,599)	4,052,221	4,400,084
Capital Contributions	56,450	713	5,854	3,817	62,304	4,530
Contributions to Permanent and Term Endowments			217,683	182,754	217,683	182,754
Transfers	(4,777,546)	(4,189,320)	4,777,546	4,189,320		
Change in Net Position	2,368,447	3,649,076	1,963,761	938,292	4,332,208	4,587,368
Net Position, Beginning Balance	94,286,652	119,405,256	53,421,004	56,177,318	147,707,656	175,582,574
Restatements	2,089,353	(28,767,680)	5,263,232	(3,694,606)	7,352,585	(32,462,286)
Net Position, Beginning Balance, as Restated	96,376,005	90,637,576	58,684,236	52,482,712	155,060,241	143,120,288
Net Position, Ending Balance	$ 98,744,452	$ 94,286,652	$ 60,647,997	$ 53,421,004	$ 159,392,449	$ 147,707,656

Expenses and Program Revenues: Governmental Activities

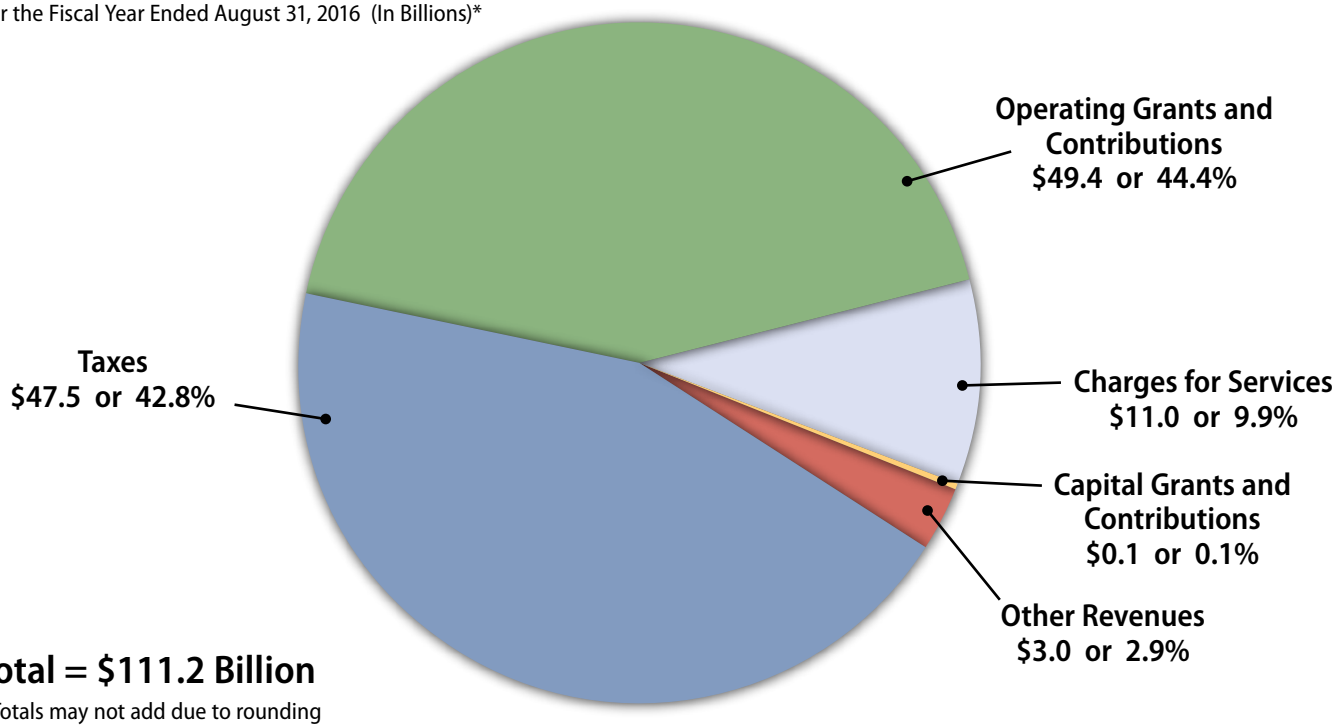
For the Fiscal Year Ended August 31, 2016 (In Millions)



Activities	Expenses	Program Revenues
Health and Human Services	$ 55,584	$ 40,644
Education	28,776	7,861
Public Safety and Corrections	6,215	737
Transportation	5,837	6,660
General Government	2,584	2,101
Teacher Retirement State Contributions	2,081	
Natural Resources and Recreation	2,013	1,823
Interest on General Long-Term Debt	160	
Regulatory Services	737	550
Employee Benefits	41	
	$ 104,028	$ 60,376

Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2016 (In Billions)*

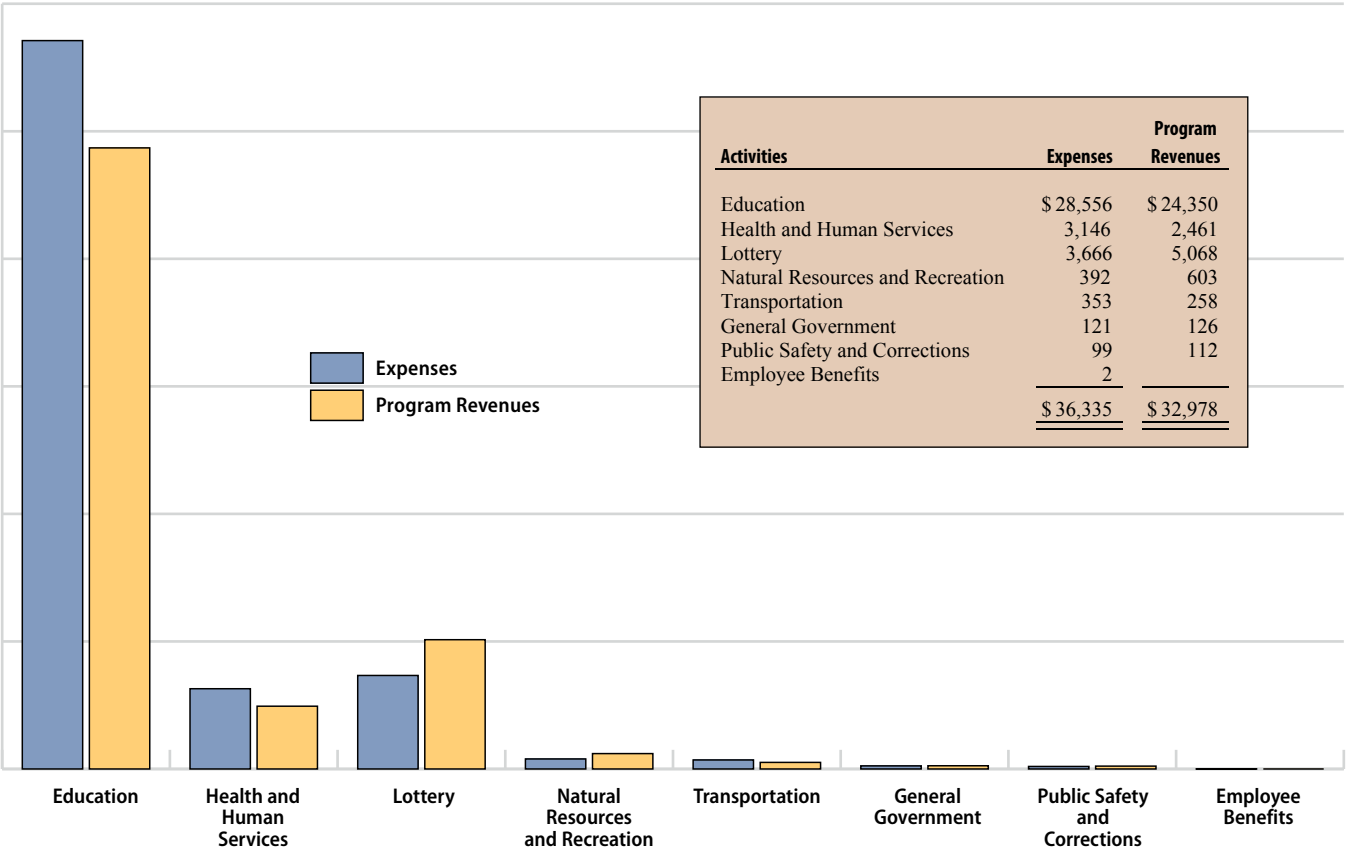


Total = $111.2 Billion

* Totals may not add due to rounding

Expenses and Program Revenues: Business-Type Activities

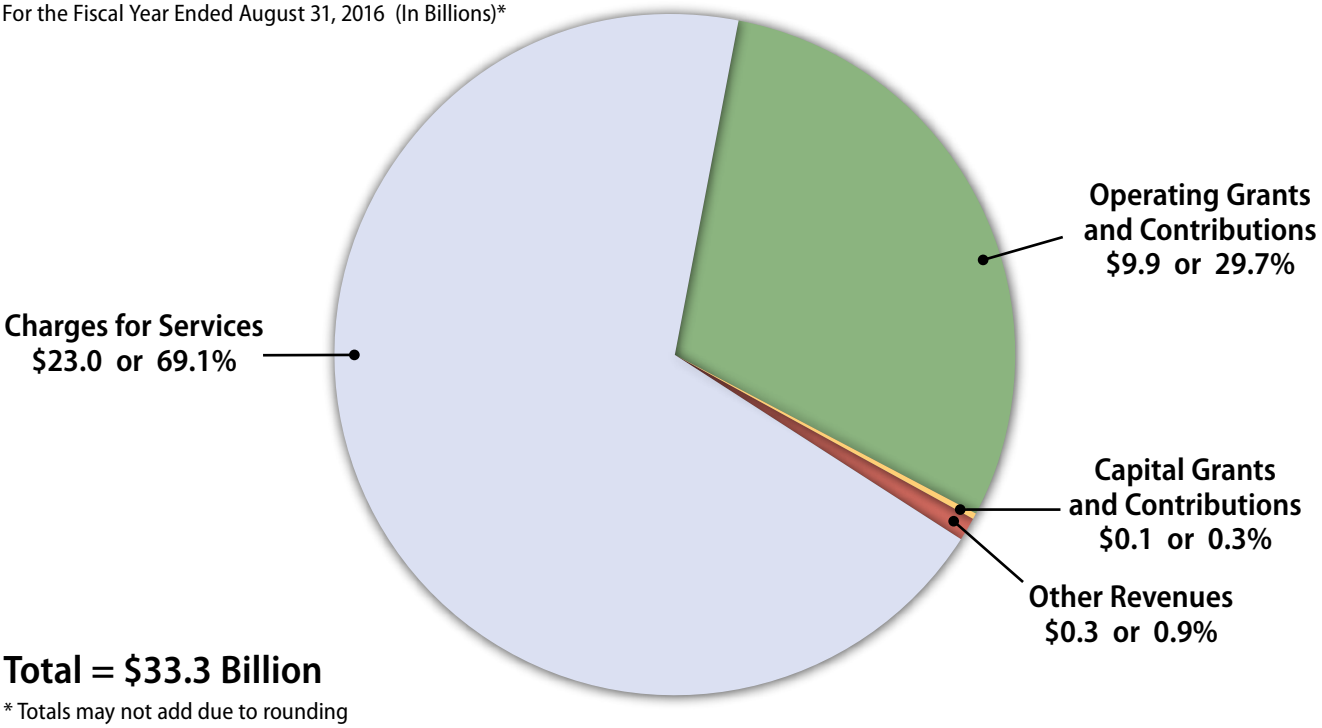
For the Fiscal Year Ended August 31, 2016 (In Millions)



Activities	Expenses	Program Revenues
Education	$ 28,556	$ 24,350
Health and Human Services	3,146	2,461
Lottery	3,666	5,068
Natural Resources and Recreation	392	603
Transportation	353	258
General Government	121	126
Public Safety and Corrections	99	112
Employee Benefits	2	
	$ 36,335	$ 32,978

Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2016 (In Billions)*



Total = $33.3 Billion

* Totals may not add due to rounding

Governmental Activities

The governmental activities program revenue was $60.4 billion, including charges for services of $11 billion, operating grants and contributions of $49.4 billion and capital grants and contributions of $47.4 million. The largest change, a $5.6 billion increase, was for operating grants and contributions. Taxes had decreases of $4.2 billion from general revenue sources, with the largest decrease in franchise tax revenue.

Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 2,583,707	$ 482,287
Education	28,775,870	20,915,203
Employee Benefits	40,546	40,475
Teacher Retirement State Contributions	2,080,935	2,080,935
Health and Human Services	55,584,169	14,939,584
Public Safety and Corrections	6,214,653	5,477,429
Transportation	5,837,122	(822,712)
Natural Resources and Recreation	2,013,773	191,232
Regulatory Services	737,203	187,433
Interest on General Long-Term Debt	159,953	159,953
Total	$ 104,027,931	$ 43,651,819

Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 121,463	$ (4,860)
Education	28,555,418	4,206,561
Employee Benefits	1,584	1,584
Health and Human Services	3,145,846	684,581
Public Safety and Corrections	99,414	(12,325)
Transportation	352,735	94,361
Natural Resources and Recreation	392,417	(210,594)
Lottery	3,665,907	(1,402,306)
Total	$ 36,334,784	$ 3,357,002

Governmental activities expenses were $104 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation function which reported a slight surplus. The education function and the health and human services function account for 81 percent of governmental activities expenses and 81.9 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support the payment of governmental services.

Business-Type Activities

Business-type activities generated program revenue of $33 billion, including charges for services of $23 billion, operating grants and contributions of $9.9 billion and capital grants and contributions of $68.3 million. The total expenses for business-type activities were $36.3 billion. The largest changes occurred in education, with a $2.1 billion increase for colleges and universities, and in the health and human services function, where there was an increase of $560.4 million in health and human services. There was an increase in net position in the government's business-type activities of $7.2 billion in comparison to the prior year's decrease of $2.8 billion.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2016, governmental funds reported fund balances of $64.8 billion. The general fund reported a positive $14.7 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2016, was $14.7 billion, a decrease of $3.2 billion from fiscal 2015, mostly due to a decrease in tax revenues and an increase in education expenditures. Tax revenues decreased by $2.3 billion from fiscal 2015.

The state constitution, state statute, and federal rule or bond covenants constrain $6.1 billion. The unassigned fund balance was $7.7 billion, which includes $10.2 billion in the economic stabilization fund, commonly called "the rainy day fund". Contributing to the lower balance was an increase of $3.8 billion in health and human services expenditures.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2016, was $5.1 billion, a decrease of $234 million from $5.3 billion as of Aug. 31, 2015. Cash and cash equivalents increased $167 million as transfers in decreased by $2.4 billion.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2016, totaled $37.3 billion, an increase of $3.4 billion since Aug. 31, 2015. This increase was primarily attributable to an increase in valuation of investments of $3.8 billion. Value in the fund provided $1.1 billion in transfers to provide funding for public education. The PSF also supports the state's public school system through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts enhancing their credit rating. As of Aug. 31, 2016, a total of $68.3 billion in school district bond issues were guaranteed.

Proprietary Funds

Proprietary funds reported net position of $60.6 billion as of Aug. 31, 2016, an increase of $7.2 billion from fiscal 2015. The state's public colleges and universities hold 89.9 percent of the reported net position in proprietary funds.

Colleges and Universities

Colleges and universities' net position as of Aug. 31, 2016, totaled $54.5 billion, an increase of $7.5 billion from Aug. 31, 2015. While colleges and universities have a net loss of $14.1 billion for fiscal 2016, there were increases of $1.1 billion in net income before capital contributions, endowments and transfers and $737.5 million in capital contributions and transfers from fiscal 2015. There was an increase in interest and investment income of $2.5 billion due to improving market performance. There also was $512.3 million collected from land mineral income, such as oil royalties, deposited to the permanent university fund (PUF) for the benefit of the University of Texas and Texas A&M University Systems. A $5.3 billion restatement was reported in fiscal 2016 to increase the value of sovereign lands to fair market value based on the implementation of GASB Statement No. 72. The PUF's net position after distributions increased by $390.1 million from $17.5 billion in fiscal 2015 to $17.9 billion in fiscal 2016. This endowment fund contributes to the support of 15 institutions in the University of Texas System and 14 in the Texas A&M University System.

Unemployment Trust Fund

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of $982.5 million as of Aug. 31, 2016, a decrease of $495.7 million from $1.5 billion as of Aug. 31, 2015. During fiscal 2016, unemployment taxes collected decreased $126.7 million from $2.5 billion in 2015, while federal contributions decreased $8.3 million in 2016. Benefits payments increased $565.7 million as the unemployment rate averaged 4.5 percent as compared to the U.S. average of 4.9 percent.

Lottery Fund

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state's foundation school fund. The lottery fund had a net position of $71.7 million on Aug. 31, 2016, an increase of 45.4 percent from the $49.4 million at the

end of fiscal 2015. The Commission recorded its highest level of total sales since ticket sales began in 1992 with collections of $5.1 billion. Transfers to state agencies totaled $1.4 billion, the thirteenth consecutive year overall that revenue transfers exceeded $1 billion.

Fiduciary Funds

Fiduciary funds reported $178.3 billion in net position as of Aug. 31, 2016, an increase of $7 billion from $171.3 billion in fiscal 2015, a 4.1 percent increase.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was $160.5 billion, an increase of $5.6 billion from the $154.8 billion reported in fiscal 2015. The majority of plan assets are held as investments for the pension funds. Additions from all sources increased $11.1 billion from fiscal 2015, while benefit payments increased $691.2 million. Increases in additions are due primarily to more favorable conditions in the financial markets and member contribution increases. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas was 7.38 percent and 5.32 percent, respectively, compared to the previous year's returns of 0.27 and 0.49 percent.

External Investment Trust Fund

The Texas Treasury Safekeeping Trust (Trust) is the only external investment trust fund. It administers and invests funds belonging to state and local entities as well as providing direct access to services of the Federal Reserve System. The Trust reported a total net position of $14.3 billion in fiscal 2016, an increase of $1.4 billion from fiscal 2015. The increase in net position is due to an increase in both TexPool and TexPool Prime revenue.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was $3.6 billion in fiscal 2016, a decrease of $41 million from fiscal 2015. Additions from all sources of $662 million exceeded total deductions of $493 million, however, the overall increase was offset by negative restatements of $210 million. The net decrease of $41 million is a decrease of 119.9 percent from the net increase of $204 million in fiscal 2015.

Budgetary Highlights

Variances for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons.

Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of $2.8 billion.

There was a negative $4.8 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with taxes and federal revenues, which reported a $1.7 billion and $2.1 billion difference, respectively.

The largest negative expenditure variance is related to the health and human services function.

Capital Assets – Net of Depreciation and Amortization

August 31, 2016 and 2015 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land and Land Improvements	$ 12,609,626	$ 11,601,206	$ 2,039,730	$ 1,764,690	$ 14,649,356	$ 13,365,896
Infrastructure	68,246,142	63,674,344	2,819,656	2,771,735	71,065,798	66,446,079
Construction in Progress	15,838,662	12,443,817	2,733,473	3,213,413	18,572,135	15,657,230
Buildings and Building Improvements	2,037,396	2,112,308	16,954,822	16,023,156	18,992,218	18,135,464
Facilities and Other Improvements	60,424	59,889	1,740,746	1,409,548	1,801,170	1,469,437
Furniture and Equipment	306,063	289,706	1,778,053	1,710,112	2,084,116	1,999,818
Vehicles, Boats and Aircraft	471,463	427,830	83,800	82,981	555,263	510,811
Other Capital Assets	256,183	201,469	1,283,195	1,257,624	1,539,378	1,459,093
Intangible Capital Assets, Net	184,406	195,796	475,000	312,790	659,406	508,586
Total Capital Assets	$ 100,010,365	$ 91,006,365	$ 29,908,475	$ 28,546,049	$ 129,918,840	$ 119,552,414

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2016, the state had $130 billion in net capital assets. This total represents an increase of $10.4 billion in total capital assets or 8.7 percent from fiscal 2015. Included in this amount is an increase to infrastructure of $6.1 billion and construction in progress of $3.4 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added $2 billion to buildings and building improvements.

To ensure future availability of essential services and to finance capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated $28.9 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state.

Note 2 provides detail about the state's capital assets and Note 15 details the state's significant commitments related to future capital expenditures.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide statement of net position. The state accounts for its system of roads and highways using the depreciation method. Additional detail is also found in Note 2 for capital assets.

Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AAA by Standard & Poor's and AAA by Fitch Ratings as of August 2016. During fiscal 2016, Texas' state agencies and institutions of higher education issued $7 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for $3.2 billion of state bonds issued in fiscal 2016. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining $3.8 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were com-

Outstanding Bonded Debt

August 31, 2016 and 2015 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds Payable	$ 15,059,808	$ 14,177,418	$ 4,329,815	$ 3,954,563	$ 19,389,623	$ 18,131,981
Revenue Bonds Payable	4,290,384	4,490,215	23,410,697	21,466,229	27,701,081	25,956,444
Total Bonds Payable	$ 19,350,192	$ 18,667,633	$ 27,740,512	$ 25,420,792	$ 47,090,704	$ 44,088,425

posed of $637.9 million in general obligation bonds and $1.1 billion in revenue bonds. Also, $1.5 billion in general obligation bonds and $1.2 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2016 was $19.4 billion. This represents an increase of $1.3 billion or 6.9 percent from fiscal 2015. An additional $12.1 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were $27.7 billion, which is an increase of $1.7 billion or 6.7 percent from fiscal 2015. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

Economic Condition

Notwithstanding continuing weakness in the oil and natural gas and related industries over the past year, the Texas economy added 210,800 nonfarm jobs from November 2015 to November 2016, an increase of 1.8 percent. Private sector employment grew by 1.7 percent, while government employment (federal, state, and local) growth was 2.1 percent. Texas added more new jobs than all other states except California and Florida over those 12 months, and had the lowest unemployment rate among the 10 most populous states as of November 2016 (4.6 percent). The Texas unemployment rate remained below the national rate in each of the last 12 months, as it has in every month since January 2007. As of November 2016, total nonfarm employment in Texas stood at 12,126,300.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.

Section Two (continued)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2016 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 23,667,977	$ 5,652,961	$ 29,320,938	$ 1,587,790
Short-Term Investments	365,012	1,148,956	1,513,968	57,222
Securities Lending Collateral	1,372,067	790,981	2,163,048	
Receivables:				
Taxes	2,765,354		2,765,354	
Federal	1,967,184	758,327	2,725,511	44
Other Intergovernmental	530,867	130,500	661,367	1,288
Accounts	828,441	2,260,689	3,089,130	37,737
Interest and Dividends	84,983	257,675	342,658	769
Gifts		297,604	297,604	
Investment Trades	1,965	532,203	534,168	
Other	85,966	455,594	541,560	559
From Fiduciary Funds	507,440		507,440	
Inventories	403,687	186,195	589,882	3,479
Prepaid Items	5,396	215,963	221,359	4,677
Loans and Contracts	74,114	354,816	428,930	527
Other Current Assets		363,001	363,001	2,955
Restricted:				
Cash and Cash Equivalents	26,631	3,472,649	3,499,280	3,460
Short-Term Investments		502,760	502,760	
Loans and Contracts	117,217	104,370	221,587	2,598
Total Current Assets	32,804,301	17,485,244	50,289,545	1,703,105
Noncurrent Assets:				
Internal Balances (Note 12)	21,489	(21,489)		
Loans and Contracts	1,352,632	5,669,165	7,021,797	5,889
Investments	40,269,344	12,436,955	52,706,299	5,105
Receivables:				
Taxes	34,641		34,641	
Gifts		752,975	752,975	4,389
Other	350,778	29,059	379,837	778
Restricted:				
Cash and Cash Equivalents		85,876	85,876	4,675
Short-Term Investments		8,822	8,822	
Investments		40,719,178	40,719,178	494,244
Receivables		175,451	175,451	
Loans and Contracts	1,439,597	3,764,044	5,203,641	6,564
Other	90,542	13,309	103,851	
Assets Held in Trust		14,894	14,894	6,967
Prepaid Items				2,844
Intangible Assets – Service Concession Arrangements (Note 26)		2,326,591	2,326,591	
Other Noncurrent Assets	79,915	154,813	234,728	363
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	28,641,153	5,524,221	34,165,374	842
Depreciable or Amortizable, Net	71,369,212	24,384,254	95,753,466	31,822
Total Noncurrent Assets	143,649,303	96,038,118	239,687,421	564,482
Total Assets	176,453,604	113,523,362	289,976,966	2,267,587
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 27)	6,183,264	1,654,463	7,837,727	
Total Deferred Outflows of Resources	6,183,264	1,654,463	7,837,727	0

Concluded on the following page

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Net Position (concluded)

August 31, 2016 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 4,228,062	$ 1,776,873	$ 6,004,935	$ 503,075
Payroll	773,131	951,619	1,724,750	895
Other Intergovernmental	538,710	12,876	551,586	
Federal	846	56,534	57,380	
Investment Trades	51,771	746,509	798,280	
Interest	324,633	122,891	447,524	889
Tax Refunds (Note 23)	805,784		805,784	
Annuities		7,888	7,888	
To Fiduciary Funds	85,826		85,826	
Internal Balances (Note 12)	894,273	(894,273)		
Unearned Revenue	997,126	3,457,532	4,454,658	305,098
Obligations/Reverse Repurchase Agreement	44,211		44,211	
Obligations/Securities Lending	1,416,684	790,981	2,207,665	
Claims and Judgments (Note 5)	41,895	110,918	152,813	
Capital Lease Obligations (Note 5, 8)	4,023	13,373	17,396	44
Employees' Compensable Leave (Note 5)	572,498	442,114	1,014,612	1,543
Notes and Loans Payable (Note 5)	207,237	102,409	309,646	6,709
General Obligation Bonds Payable (Note 5, 6)	557,999	225,545	783,544	
Revenue Bonds Payable (Note 5, 6)	199,851	2,271,228	2,471,079	4,713
Pollution Remediation Obligation (Note 5)	39,661		39,661	
Liabilities Payable From Restricted Assets (Note 5)		490,256	490,256	
Short Term Debt (Note 4)		957,159	957,159	
Funds Held for Others		148,686	148,686	180,965
Other Current Liabilities	279,504	192,403	471,907	142,528
Total Current Liabilities	12,063,725	11,983,521	24,047,246	1,146,459
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	76,951	45,548	122,499	
Capital Lease Obligations (Note 5, 8)	23,021	57,084	80,105	131
Employees' Compensable Leave (Note 5)	284,078	417,401	701,479	1,095
Notes and Loans Payable (Note 5)	1,215,670	2,092,838	3,308,508	9,379
General Obligation Bonds Payable (Note 5, 6)	14,501,809	4,104,270	18,606,079	
Revenue Bonds Payable (Note 5, 6)	4,090,533	21,139,469	25,230,002	76,945
Pollution Remediation Obligation (Note 5)	221,406	1,023	222,429	
Liabilities Payable From Restricted Assets (Note 5)		2,435,631	2,435,631	
Assets Held for Others		837,442	837,442	
Net Pension Liability (Note 9)	34,381,648	3,878,026	38,259,674	
Net Pension Obligation (Note 9)	38,565		38,565	
Net OPEB Obligation (Note 11)		5,765,230	5,765,230	
Investment Derivative Instrument Liability		233,840	233,840	
Hedging Derivative Liability (Note 7)		702,351	702,351	
Other Noncurrent Liabilities		242,551	242,551	461,893
Total Noncurrent Liabilities	54,833,681	41,952,704	96,786,385	549,443
Total Liabilities	66,897,406	53,936,225	120,833,631	1,695,902
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 27)	16,995,010	593,603	17,588,613	
Total Deferred Inflows of Resources	16,995,010	593,603	17,588,613	0
NET POSITION				
Net Investment in Capital Assets	72,247,981	11,847,190	84,095,171	21,661
Restricted for:				
Education	898,817	3,262,463	4,161,280	
Transportation	3,833,790		3,833,790	
Debt Service	582,108	431,132	1,013,240	
Capital Projects	358,636	907,354	1,265,990	
Veterans Land Board Housing Programs		152,745	152,745	
Unemployment Trust Fund		1,186,951	1,186,951	
Funds Held as Permanent Investments:				
Nonexpendable	16,527,409	23,245,420	39,772,829	212,255
Expendable	22,090,065	9,365,299	31,455,364	24,650
Other	2,650,343	4,189,966	6,840,309	79,978
Unrestricted	(20,444,697)	6,059,477	(14,385,220)	233,141
Total Net Position	$ 98,744,452	$ 60,647,997	$ 159,392,449	$ 571,685

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 2,583,707	$ 1,214,866	$ 885,664	$ 890
Education	28,775,870	640,800	7,219,769	98
Employee Benefits	40,546	71		
Teacher Retirement State Contributions	2,080,935			
Health and Human Services	55,584,169	4,885,841	35,758,642	102
Public Safety and Corrections	6,214,653	328,660	408,377	187
Transportation	5,837,122	2,678,980	3,941,358	39,496
Natural Resources and Recreation	2,013,773	671,388	1,144,553	6,600
Regulatory Services	737,203	546,396	3,374	
Interest on General Long-Term Debt	159,953			
Total Governmental Activities	104,027,931	10,967,002	49,361,737	47,373
Business-Type Activities:				
General Government	121,463	59,849	66,474	
Education	28,555,418	15,118,887	9,162,197	67,773
Employee Benefits	1,584			
Health and Human Services	3,145,846	2,369,689	91,576	
Public Safety and Corrections	99,414	111,739		
Transportation	352,735	256,137	2,237	
Natural Resources and Recreation	392,417	41,758	560,713	540
Lottery	3,665,907	5,068,213		
Total Business-Type Activities	36,334,784	23,026,272	9,883,197	68,313
Total Primary Government	$ 140,362,715	$ 33,993,274	$ 59,244,934	$ 115,686
COMPONENT UNITS				
Component Units	$ 2,690,909	$ 2,609,042	$ 46,864	$ 0
Total Component Units	$ 2,690,909	$ 2,609,042	$ 46,864	$ 0

The accompanying notes to the financial statements are an integral part of this statement.

Concluded on the following page

STATE OF TEXAS

Statement of Activities (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

Functions/Programs	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ (482,287)	$	$ (482,287)	$
Education	(20,915,203)		(20,915,203)	
Employee Benefits	(40,475)		(40,475)	
Teacher Retirement State Contributions	(2,080,935)		(2,080,935)	
Health and Human Services	(14,939,584)		(14,939,584)	
Public Safety and Corrections	(5,477,429)		(5,477,429)	
Transportation	822,712		822,712	
Natural Resources and Recreation	(191,232)		(191,232)	
Regulatory Services	(187,433)		(187,433)	
Interest on General Long-Term Debt	(159,953)		(159,953)	
Total Governmental Activities	(43,651,819)	0	(43,651,819)	0
Business-Type Activities:				
General Government		4,860	4,860	
Education		(4,206,561)	(4,206,561)	
Employee Benefits		(1,584)	(1,584)	
Health and Human Services		(684,581)	(684,581)	
Public Safety and Corrections		12,325	12,325	
Transportation		(94,361)	(94,361)	
Natural Resources and Recreation		210,594	210,594	
Lottery		1,402,306	1,402,306	
Total Business-Type Activities	0	(3,357,002)	(3,357,002)	0
Total Primary Government	(43,651,819)	(3,357,002)	(47,008,821)	0
COMPONENT UNITS				
Component Units				(35,003)
Total Component Units	0	0	0	(35,003)
General Revenues				
Taxes:				
Sales and Use	27,964,415		27,964,415	
Motor Vehicle and Manufactured Housing	4,525,239		4,525,239	
Motor Fuels	3,468,212		3,468,212	
Franchise	2,031,051		2,031,051	
Oil and Natural Gas Production	3,638,527		3,638,527	
Insurance Occupation	2,241,153		2,241,153	
Cigarette and Tobacco	1,390,796		1,390,796	
Other	2,275,043		2,275,043	
Unrestricted Investment Earnings	282,494	142,738	425,232	3,484
Net Decrease in Fair Value of Investments	(1)		(1)	
Settlement of Claims	670,386	848	671,234	
Gain on Sale of Capital Assets	54,797	1,044	55,841	151
Loss on Other Financial Activity	(59,904)		(59,904)	
Other General Revenues	2,259,154	175,050	2,434,204	9,490
Capital Contributions	56,450	5,854	62,304	
Contributions to Permanent and Term Endowments		217,683	217,683	
Transfers - Internal Activities (Note 12)	(4,777,546)	4,777,546		
Total General Revenues, Contributions, Special Items and Transfers	46,020,266	5,320,763	51,341,029	13,125
Change in Net Position	2,368,447	1,963,761	4,332,208	(21,878)
Net Position, September 1, 2015	94,286,652	53,421,004	147,707,656	596,915
Restatements (Note 14)	2,089,353	5,263,232	7,352,585	(3,352)
Net Position, September 1, 2015, as Restated	96,376,005	58,684,236	155,060,241	593,563
Net Position, August 31, 2016	$ 98,744,452	$ 60,647,997	$ 159,392,449	$ 571,685

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2016 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$ 13,782,057	$ 4,160,200	$ 2,362,024	$ 3,334,243	$ 23,638,524
Short-Term Investments	75,089		96,759	145,258	317,106
Securities Lending Collateral			1,362,217		1,362,217
Receivables:					
Accounts	430,122	150,596	91,230	1,175	673,123
Taxes (Note 23)	2,494,807	228,730		76,458	2,799,995
Federal	1,392,191	554,769		20,224	1,967,184
Investment Trades			1,965		1,965
Other Intergovernmental	446,005	84,862			530,867
Interest and Dividends	7,224	6,006	57,428	12,077	82,735
Other	436,744				436,744
Due From Other Funds (Note 12)	146,929	675,737	5	325,441	1,148,112
Interfund Receivable (Note 12)	30,774				30,774
Inventories	241,544	161,972		171	403,687
Prepaid Items	2,773		2,279	344	5,396
Investments	2,005,447		34,844,034	3,033,278	39,882,759
Loans and Contracts	298,808	322,761	2,919	802,258	1,426,746
Other Assets	79,915				79,915
Restricted:					
Cash and Cash Equivalents	25,131			1,500	26,631
Loans and Contracts	586,587			970,227	1,556,814
Other Assets				90,542	90,542
Total Assets	$ 22,482,147	$ 6,345,633	$ 38,820,860	$ 8,813,196	$ 76,461,836
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 2,588,953	$ 899,171	$ 11,593	$ 112,708	$ 3,612,425
Investment Trades			51,771		51,771
Other Intergovernmental	538,710				538,710
Tax Refunds (Note 23)	805,784				805,784
Payroll	698,019	72,136	2,223	753	773,131
Federal	846				846
Interest	18,692				18,692
Due To Other Funds (Note 12)	1,897,023	60,350	17	163,862	2,121,252
Interfund Payable (Note 12)	139			2,622	2,761
Unearned Revenues	477,542	156,788	67,538	721,247	1,423,115
Obligations/Reverse Repurchase Agreements	44,211				44,211
Obligations/Securities Lending			1,406,541		1,406,541
Other Liabilities	274,667	2,245		2,592	279,504
Total Liabilities	7,344,586	1,190,690	1,539,683	1,003,784	11,078,743
Deferred Inflows of Resources:					
Deferred Inflows of Resources (Note 27)	465,594	102,126	17,248		584,968
Total Deferred Inflows of Resources	465,594	102,126	17,248	0	584,968
Fund Balances					
Nonspendable (Note 13)	727,627	161,972	15,732,177	797,682	17,419,458
Restricted (Note 13)	1,546,665	3,178,132	21,531,752	6,874,588	33,131,137
Committed (Note 13)	4,602,271	1,140,219		135,303	5,877,793
Assigned (Note 13)	115,275	572,494		1,839	689,608
Unassigned (Note 13)	7,680,129				7,680,129
Total Fund Balances	14,671,967	5,052,817	37,263,929	7,809,412	64,798,125
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 22,482,147	$ 6,345,633	$ 38,820,860	$ 8,813,196	$ 76,461,836

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

August 31, 2016 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 64,798,125
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets less accumulated depreciation and amortization are included in the Statement of Net Position. (Note 2)		
Capital Assets – Non-Depreciable or Non-Amortizable	$ 28,641,153	
Capital Assets – Depreciable or Amortizable, Net	71,369,212	
		100,010,365
Reversal of prior year unearned tax revenues recorded in governmental funds but not in the Statement of Net Position.		426,652
Deferred inflows of resources represent revenues state earned to be collected after fiscal year-end but not available soon enough to pay current year's expenditures, therefore are deferred in the funds but not reportable in the Statement of Net Position. (Note 27)		584,968
Deferred outflows of resources were reported in the Statement of Net Position to reflect the loss on bond/debt refunding and impact of pension implementation. (Note 27)		6,183,264
Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized upfront payments received and capital assets acquired in connection with the Service Concession Arrangements and impact of pension implementation. (Note 26, 27)		(16,995,010)
Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the Statement of Net Position. (Note 5, 9, and RSI)		
Claims and Judgments	(118,846)	
Capital Lease Obligations	(27,044)	
Employees' Compensable Leave	(856,576)	
Notes and Loans Payable	(1,422,907)	
General Obligation Bonds Payable	(15,059,808)	
Revenue Bonds Payable	(4,290,384)	
Pollution Remediation Obligation	(261,067)	
Net Pension Liability	(34,381,648)	
Net Pension Obligation	(38,565)	
		(56,456,845) *
* current portion = $1,623,164 and noncurrent portion = $54,833,681		
Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the Statement of Net Position.		(305,941)
The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		498,874
Net Position of Governmental Activities		$ 98,744,452

STATE OF TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$ 42,597,570	$ 2,625,365	$	$ 2,747,761	$ 47,970,696
Federal	40,296,287	3,937,843		49,832	44,283,962
Licenses, Fees and Permits	3,038,396	1,569,521		657,794	5,265,711
Interest and Other Investment Income	111,872	40,664	2,083,594	169,457	2,405,587
Land Income	18,516	12,104	524,700	37	555,357
Settlement of Claims	635,491	47,519	1,972	180	685,162
Sales of Goods and Services	4,626,984	4,083	76,978	131,759	4,839,804
Other	4,914,435	18,930	4,067	315,809	5,253,241
Total Revenues	96,239,551	8,256,029	2,691,311	4,072,629	111,259,520
EXPENDITURES					
Current:					
General Government	2,622,829	1,719		244,265	2,868,813
Education	27,658,325		114,473	898,705	28,671,503
Employee Benefits	27,698			19,500	47,198
Teacher Retirement State Contributions	2,080,935				2,080,935
Health and Human Services	55,522,638			21,282	55,543,920
Public Safety and Corrections	5,964,269	2,552		71,402	6,038,223
Transportation	137,249	3,413,589		92,700	3,643,538
Natural Resources and Recreation	2,063,003			61,096	2,124,099
Regulatory Services	413,887	(2,166)		324,117	735,838
Capital Outlay	246,141	5,159,467	610	964,513	6,370,731
Debt Service:					
Principal	89,394	120,651		536,394	746,439
Interest	140,914			650,688	791,602
Other Financing Fees	1,907	1,390		8,290	11,587
Total Expenditures	96,969,189	8,697,202	115,083	3,892,952	109,674,426
Excess (Deficiency) of Revenues Over (Under) Expenditures	(729,638)	(441,173)	2,576,228	179,677	1,585,094
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	4,513,353	571,871		2,501,778	7,587,002
Transfer Out (Note 12)	(7,273,103)	(448,683)	(1,056,412)	(3,587,114)	(12,365,312)
Bonds and Notes Issued	207,500			881,827	1,089,327
Bonds Issued for Refunding	369,404			1,323,381	1,692,785
Premiums on Bonds Issued				358,635	358,635
Payment to Escrow for Refunding	(298,211)			(1,527,003)	(1,825,214)
Sale of Capital Assets	5,720	67,107	4	3	72,834
Service Concession Arrangement		25,479			25,479
Increase in Obligations Under Capital Leases	1,280				1,280
Gain on Other Financial Activity	(59,904)				(59,904)
Insurance Recoveries	3,494				3,494
Capital Contributions	55,484				55,484
Total Other Financing Sources (Uses)	(2,474,983)	215,774	(1,056,408)	(48,493)	(3,364,110)
Net Change in Fund Balances	(3,204,621)	(225,399)	1,519,820	131,184	(1,779,016)
Fund Balances, September 1, 2015	17,882,009	5,286,794	33,833,543	7,677,774	64,680,120
Restatements (Note 14)	(5,421)	(8,578)	1,910,566	454	1,897,021
Fund Balances, September 1, 2015, as Restated	17,876,588	5,278,216	35,744,109	7,678,228	66,577,141
Fund Balances, August 31, 2016	$ 14,671,967	$ 5,052,817	$ 37,263,929	$ 7,809,412	$ 64,798,125

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

Net Change in Fund Balances		$ (1,779,016)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	$ 6,370,731	
Depreciation Expense (Note 2)	(1,905,886)	
Amortization Expense (Note 2)	(59,649)	
		4,405,196
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.		(18,037)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(2,699,551)
The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for the internal service fund "close" the fund by allocating these amounts to participating governmental activities.		58,408
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the Statement of Net Position. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.		
Bonds and Notes Issued	(2,782,112)	
Premiums on Bond Proceeds	(358,635)	
Increase in Obligations Under Capital Leases	(1,280)	
Repayment of Bond and Capital Lease Principal	2,571,653	
		(570,374)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		2,970,957
Transfers of capital assets are not reported in the governmental funds. In addition, resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the Statement of Activities.		
Capital Asset Transfers (Note 2)	864	
Increase in Revenues	100	
Increase in Expenses	(1,750)	
Net Change in Transfers	1,650	
		864
Change in Net Position of Governmental Activities		$ 2,368,447

STATE OF TEXAS

Statement of Net Position – Proprietary Funds

August 31, 2016 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 4,562,528	$ 364	$ 214,254	$ 875,815	$ 5,652,961	$ 29,453
Short-Term Investments	308,662			840,294	1,148,956	47,906
Securities Lending Collateral	729,335			61,646	790,981	9,850
Restricted:						
Cash and Cash Equivalents	1,253,677	1,206,595		1,012,377	3,472,649	
Short-Term Investments	143,502		80,418	278,840	502,760	
Loans and Contracts				104,370	104,370	
Receivables:						
Federal	735,455	1,540		21,332	758,327	
Other Intergovernmental	130,500				130,500	
Accounts	1,961,298	248,291	18,923	32,177	2,260,689	155,318
Interest and Dividends	72,743	4,864		180,068	257,675	2,248
Gifts	297,604				297,604	
Investment Trades	490,001			42,202	532,203	
Other	450,237			5,357	455,594	
Due From Other Funds (Note 12)	964,267	2,964		95,253	1,062,484	506,963
Interfund Receivable (Note 12)	48,475			150	48,625	
Inventories	161,115		14,505	10,575	186,195	
Prepaid Items	211,867		789	3,307	215,963	
Loans and Contracts	140,438			214,378	354,816	
Other Current Assets	362,922			79	363,001	
Total Current Assets	13,024,626	1,464,618	328,889	3,778,220	18,596,353	751,738
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	51,579			34,297	85,876	
Short-Term Investments	8,822				8,822	
Investments	37,628,935		592,086	2,498,157	40,719,178	
Receivables	50,435			125,016	175,451	
Loans and Contracts	95,800			3,668,244	3,764,044	
Other	11,709			1,600	13,309	
Loans and Contracts	26,833			5,642,332	5,669,165	
Investments	12,374,840			62,115	12,436,955	386,585
Interfund Receivable (Note 12)	971,261			2,140	973,401	
Gifts Receivable	752,975				752,975	
Other Receivables		29,059			29,059	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	4,810,534			713,687	5,524,221	
Depreciable or Amortizable, Net	22,323,963		433	2,059,858	24,384,254	
Assets Held in Trust	362			14,532	14,894	
Intangible Assets - Service Concessions Arrangements (Note 26)				2,326,591	2,326,591	
Other Noncurrent Assets	154,813				154,813	
Total Noncurrent Assets	79,262,861	29,059	592,519	17,148,569	97,033,008	386,585
Total Assets	92,287,487	1,493,677	921,408	20,926,789	115,629,361	1,138,323
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 27)	1,258,817			395,646	1,654,463	
Total Deferred Outflows of Resources	1,258,817	0	0	395,646	1,654,463	0
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,625,839	65,858	26,458	58,718	1,776,873	615,637
Payroll	945,240		2,153	4,226	951,619	
Other Intergovernmental	12,876				12,876	
Federal	55,767	767			56,534	
Investment Trades	702,863			43,646	746,509	
Interest	28,937	2,078		91,876	122,891	
Annuities			7,888		7,888	

Concluded on the following page

STATE OF TEXAS

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2016 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	$ 29,889	$	$ 121,542	$ 10,256	$ 161,687	$ 13,006
Interfund Payable (Note 12)	55,139			10	55,149	
Unearned Revenue	3,312,315	137,690		7,527	3,457,532	663
Obligations/Securities Lending	729,335			61,646	790,981	10,143
Short-Term Debt (Note 4)	957,159				957,159	
Claims and Judgments (Note 5)	110,918				110,918	
Capital Lease Obligations (Note 5, 8)	13,373				13,373	
Employees' Compensable Leave (Note 5)	437,891		1,450	2,773	442,114	
Notes and Loans Payable (Note 5)	90,094			12,315	102,409	
General Obligation Bonds Payable (Note 5, 6)	3,417			222,128	225,545	
Revenue Bonds Payable (Note 5, 6)	1,964,158	215,852		91,218	2,271,228	
Liabilities Payable From Restricted Assets (Note 5)	26,493		165,193	298,570	490,256	
Funds Held for Others	148,686				148,686	
Other Current Liabilities	185,573		1,249	5,581	192,403	
Total Current Liabilities	11,435,962	422,245	325,933	910,490	13,094,630	639,449
Noncurrent Liabilities:						
Interfund Payable (Note 12)	994,890				994,890	
Claims and Judgments (Note 5)	45,548				45,548	
Capital Lease Obligations (Note 5, 8)	57,084				57,084	
Employees' Compensable Leave (Note 5)	414,940		1,222	1,239	417,401	
Notes and Loans Payable (Note 5)	1,293,883			798,955	2,092,838	
General Obligation Bonds Payable (Note 5, 6)	27,333			4,076,937	4,104,270	
Revenue Bonds Payable (Note 5, 6)	13,012,012	88,935		8,038,522	21,139,469	
Liabilities Payable From Restricted Assets (Note 5)	20,923		522,504	1,892,204	2,435,631	
Pollution Remediation Obligation (Note 5)	1,023				1,023	
Assets Held for Others	822,910			14,532	837,442	
Net OPEB Obligation (Note 11)	5,765,230				5,765,230	
Net Pension Liability (Note 9)	3,878,026				3,878,026	
Derivative Instrument Liability	233,840				233,840	
Hedging Derivative Liability (Note 7)	338,726			363,625	702,351	
Other Noncurrent Liabilities	100,202			142,349	242,551	
Total Noncurrent Liabilities	27,006,570	88,935	523,726	15,328,363	42,947,594	0
Total Liabilities	38,442,532	511,180	849,659	16,238,853	56,042,224	639,449
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 27)	592,607			996	593,603	
Total Deferred Inflows of Resources	592,607	0	0	996	593,603	0
NET POSITION						
Net Investment in Capital Assets	11,133,119		432	713,639	11,847,190	
Restricted for:						
Education	3,262,463				3,262,463	
Debt Service	57,066	100,333		273,733	431,132	
Capital Projects	907,354				907,354	
Veterans Land Board Housing Programs				152,745	152,745	
Unemployment Trust Funds		1,186,951			1,186,951	
Funds Held as Permanent Investments:						
Nonexpendable	23,245,420				23,245,420	
Expendable	9,365,299				9,365,299	
Other			5,000	4,184,966	4,189,966	498,874
Unrestricted	6,540,444	(304,787)	66,317	(242,497)	6,059,477	
Total Net Position	$ 54,511,165	$ 982,497	$ 71,749	$ 5,082,586	$ 60,647,997	$ 498,874

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
OPERATING REVENUES						
Lottery Collections	$	$	$ 5,067,864	$	$ 5,067,864	$
Tuition Revenue	157,685				157,685	
Tuition Revenue – Pledged	6,147,670				6,147,670	
Discounts and Allowances	(1,540,043)				(1,540,043)	
Hospital Revenue – Pledged	12,549,693				12,549,693	
Discounts and Allowances	(7,181,552)				(7,181,552)	
Professional Fees	5,855,427				5,855,427	
Professional Fees – Pledged	113,346				113,346	
Discounts and Allowances	(3,965,708)				(3,965,708)	
Auxiliary Enterprises	3,132				3,132	
Auxiliary Enterprises – Pledged	1,511,191			110,451	1,621,642	
Discounts and Allowances	(81,426)				(81,426)	
Unemployment Taxes		2,369,625			2,369,625	
Other Sales of Goods and Services	21,734			57,183	78,917	
Other Sales of Goods and Services – Pledged	961,906			273,879	1,235,785	
Discounts and Allowances	(6,213)				(6,213)	
Interest and Investment Income	3,618			351,227	354,845	
Interest and Investment Income – Pledged	52				52	
Federal Revenue	1,919,497	91,576		57,764	2,068,837	
State Grant Revenue	30,511				30,511	
Premium Revenue						2,513,580
Other Operating Grant Revenue	960,567				960,567	
Other Operating Grant Revenue – Pledged	1,020,068				1,020,068	
Other Revenues	66,793	157,999	776	68,316	293,884	1,480
Other Revenues – Pledged	480,330				480,330	
Total Operating Revenues	19,028,278	2,619,200	5,068,640	918,820	27,634,938	2,515,060
OPERATING EXPENSES						
Cost of Goods Sold	192,979			78,779	271,758	
Salaries and Wages	12,633,890		19,365	46,233	12,699,488	6,225
Payroll Related Costs	3,163,969		6,378	13,402	3,183,749	2,078
Professional Fees and Services	1,253,124		5,789	106,861	1,365,774	1,475
Travel	331,442		346	728	332,516	56
Materials and Supplies	2,330,986		2,051	13,110	2,346,147	603
Communication and Utilities	689,905		519	2,263	692,687	361
Repairs and Maintenance	620,299		533	15,453	636,285	354
Rentals and Leases	328,990		5,070	2,488	336,548	170
Printing and Reproduction	71,904		23,709	197	95,810	28
Depreciation and Amortization	2,072,767		235	121,160	2,194,162	
Unemployment Benefit Payments		3,141,308			3,141,308	
Bad Debt Expense	27,265		172	1,732	29,169	
Interest Expense	282			293,656	293,938	
Scholarships	1,128,720				1,128,720	
Lottery Fees and Other Costs			378,070		378,070	
Lottery Prize Payments			3,186,430		3,186,430	
Employee/Participant Benefit Payments				131,961	131,961	2,455,030
Net Change in Pollution Remediation Obligation	1,023			(1,530)	(507)	
Claims and Judgments	26,673				26,673	
Net Change in OPEB Obligations	796,380				796,380	
Other Expenses	1,901,924		37,240	80,605	2,019,769	8,039
Total Operating Expenses	27,572,522	3,141,308	3,665,907	907,098	35,286,835	2,474,419
Operating Income (Loss)	(8,544,244)	(522,108)	1,402,733	11,722	(7,651,897)	40,641

Concluded on the following page

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	$ 946,166	$	$	$ 217,783	$ 1,163,949	$
Gifts	758,890			260	759,150	
Gifts – Pledged	144,258				144,258	
Land Income	133			12	145	
Interest and Investment Income	2,738,576	30,961	11,958	107,730	2,889,225	19,403
Interest and Investment Income – Pledged	518,862				518,862	
Loan Premium and Fees on Securities Lending				148	148	26
Investing Activities Expense	(129,197)			(371)	(129,568)	
Interest Expense	(567,437)	(4,535)		(174,109)	(746,081)	
Borrower Rebates and Agent Fees	(6,789)			(96)	(6,885)	63
Loss on Sale of Capital Assets	(29,050)			(2)	(29,052)	
Settlement of Claims	846			2	848	25
Claims and Judgments	(706)				(706)	
Other Revenues	62,904				62,904	
Other Revenues – Pledged	53,617			56	53,673	
Other Expenses	(84,381)	(4)		(49,337)	(133,722)	
Total Nonoperating Revenues (Expenses)	4,406,692	26,422	11,958	102,076	4,547,148	19,517
Income (Loss) Before Capital Contributions, Endowments and Transfers	(4,137,552)	(495,686)	1,414,691	113,798	(3,104,749)	60,158
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	2,054				2,054	
Capital Contributions – Other	69,536			2,410	71,946	
Contributions to Permanent and Term Endowments	217,683				217,683	
Transfer In (Note 12)	6,511,661			120,284	6,631,945	
Transfer Out (Note 12)	(405,456)		(1,392,306)	(57,356)	(1,855,118)	(1,750)
Total Capital Contributions, Endowments and Transfers	6,395,478	0	(1,392,306)	65,338	5,068,510	(1,750)
Change in Net Position	2,257,926	(495,686)	22,385	179,136	1,963,761	58,408
Net Position, September 1, 2015	46,988,113	1,478,183	49,364	4,905,344	53,421,004	440,466
Restatements (Note 14)	5,265,126			(1,894)	5,263,232	
Net Position, September 1, 2015, as Restated	52,253,239	1,478,183	49,364	4,903,450	58,684,236	440,466
Net Position, August 31, 2016	$ 54,511,165	$ 982,497	$ 71,749	$ 5,082,586	$ 60,647,997	$ 498,874

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds from Customers	$ 7,809,085	$ 2,410,090	$ 5,091,850	$ 523,856	$ 15,834,881	$ 517,336
Proceeds from Tuition and Fees	4,798,045				4,798,045	
Proceeds from Research Grants and Contracts	3,838,669	88,735			3,927,404	
Proceeds from Gifts				52	52	
Proceeds from Loan Programs	335,785			714,464	1,050,249	
Proceeds from Auxiliaries	1,458,584				1,458,584	
Proceeds from Other Operating Revenues	896,867	154,671		73,993	1,125,531	1,809,300
Payments to Suppliers for Goods and Services	(8,012,699)		(458,196)	(297,995)	(8,768,890)	(2,615)
Payments to Employees	(15,506,705)		(25,391)	(56,944)	(15,589,040)	(5,246)
Payments for Loans Provided	(348,340)			(820,655)	(1,168,995)	
Payments for Lottery Prizes			(3,214,430)		(3,214,430)	
Payments for Unemployment Benefits		(3,148,636)			(3,148,636)	
Payments for Other Operating Expenses	(1,133,987)			(231,514)	(1,365,501)	(2,436,007)
Net Cash Provided (Used) by Operating Activities	(5,864,696)	(495,140)	1,393,833	(94,743)	(5,060,746)	(117,232)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance				1,698,672	1,698,672	
Proceeds from Gifts	905,636				905,636	
Proceeds from Endowments	387,063				387,063	
Proceeds from Transfers from Other Funds	7,117,490	50,831		499,526	7,667,847	
Proceeds from Interfund Payables				27,308	27,308	
Proceeds from Loan Programs	20,282				20,282	
Proceeds from Grant Receipts	1,043,021			215,427	1,258,448	
Proceeds from Other Noncapital Financing Activities	483,144		7,410	208	490,762	
Payments of Principal on Debt Issuance		(347,843)		(519,812)	(867,655)	
Payments of Interest	(3,242)	(7,013)		(384,027)	(394,282)	
Payments of Other Costs on Debt Issuance		(3)		(2,409)	(2,412)	
Payments for Transfers to Other Funds	(1,755,229)	(49,883)	(1,398,340)	(533,720)	(3,737,172)	
Payments for Grant Disbursements	(18,781)			(69,448)	(88,229)	
Payments for Interfund Receivables				(48,400)	(48,400)	
Payments for Other Noncapital Financing Uses	(396,663)		(83,085)	(280,681)	(760,429)	
Net Cash Provided (Used) by Noncapital Financing Activities	7,782,721	(353,911)	(1,474,015)	602,644	6,557,439	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	46,168			53	46,221	
Proceeds from Debt Issuance	4,274,316				4,274,316	
Proceeds from State Grants and Contracts	37,753				37,753	
Proceeds from Federal Grants and Contracts	379			1,983	2,362	
Proceeds from Gifts	2,084				2,084	
Proceeds from Other Capital and Related Financing Activities	67,293			12	67,305	
Proceeds from Capital Contributions	210,135				210,135	
Proceeds from Interfund Payables	79,930				79,930	
Payments for Additions to Capital Assets	(3,512,598)		(146)	(7,892)	(3,520,636)	
Payments of Principal on Debt Issuance	(2,434,820)			(1,745)	(2,436,565)	
Payments for Capital Leases	(4,656)			(1,670)	(6,326)	
Payments of Interest on Debt Issuance	(673,993)			(107,051)	(781,044)	
Payments of Other Costs on Debt Issuance	(64,360)			(17)	(64,377)	
Payments for Interfund Receivables	(4,842)				(4,842)	
Net Cash (Used) by Capital and Related Financing Activities	(1,977,211)	0	(146)	(116,327)	(2,093,684)	0

Concluded on the following page

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$19,665,748	$	$ 83,085	$ 3,169,310	$ 22,918,143	$ 111,449
Proceeds from Interest and Investment Income	1,320,475	33,764		289,195	1,643,434	402
Proceeds from Principal Payments on Loans	2			452,550	452,552	
Payments to Acquire Investments	(20,824,951)		(7,509)	(2,617,219)	(23,449,679)	
Payments for Nonprogram Loans Provided				(1,482,225)	(1,482,225)	
Net Cash Provided (Used) by Investing Activities	161,274	33,764	75,576	(188,389)	82,225	111,851
Net Increase (Decrease) in Cash and Cash Equivalents	102,088	(815,287)	(4,752)	203,185	(514,766)	(5,381)
Cash and Cash Equivalents, September 1, 2015	5,765,696	2,022,246	219,006	1,488,255	9,495,203	34,834
Restatements				231,049	231,049	
Cash and Cash Equivalents, September 1, 2015, as Restated	5,765,696	2,022,246	219,006	1,719,304	9,726,252	34,834
Cash and Cash Equivalents, August 31, 2016	$ 5,867,784	$ 1,206,959	$ 214,254	$ 1,922,489	$ 9,211,486	$ 29,453
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (8,544,244)	$ (522,108)	$ 1,402,733	$ 11,722	$ (7,651,897)	$ 40,641
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	2,072,767		235	121,160	2,194,162	
Bad Debt Expense	406,642		172	1,732	408,546	
Pension Expense	350,737				350,737	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(347,557)			62,263	(285,294)	(1,725)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(608,645)	16,007	23,210	(4,680)	(574,108)	(1,683)
(Increase) Decrease in Due From Other Funds	(376)			1,040	664	(186,677)
(Increase) Decrease in Inventories	(9,696)		(1,741)	1,874	(9,563)	
(Increase) Decrease in Notes Receivable	(639)				(639)	
(Increase) Decrease in Loans and Contracts	(14,261)			(295,065)	(309,326)	
(Increase) Decrease in Other Assets	(65,016)			10,130	(54,886)	
(Increase) Decrease in Prepaid Expenses	(28,711)		197	(3,025)	(31,539)	
Increase (Decrease) in Payables	98,707	(20,758)	(30,973)	(46,371)	605	34,509
Increase (Decrease) in Deposits	3,937			3,084	7,021	
Increase (Decrease) in Due To Other Funds	(407)			(4,552)	(4,959)	10,612
Increase (Decrease) in Unearned Revenue	80,480	31,719		(7)	112,192	(12,909)
Increase (Decrease) in Employees' Compensable Leave	43,043			(34)	43,009	
Increase (Decrease) in Benefits Payable	784,131				784,131	
Increase (Decrease) in Other Liabilities	(85,588)			45,986	(39,602)	
Total Adjustments	2,679,548	26,968	(8,900)	(106,465)	2,591,151	(157,873)
Net Cash Provided (Used) by Operating Activities	$ (5,864,696)	$ (495,140)	$ 1,393,833	$ (94,743)	$ (5,060,746)	$ (117,232)
NONCASH TRANSACTIONS						
Donation of Capital Assets	$ 35,603	$	$	$ 1,870	$ 37,473	$
Net Change in Fair Value of Investments	$ 1,204,574	$	$ 11,958	$ 35,098	$ 1,251,630	$ 7,771
Borrowing Under Capital Lease Purchase	$ 19,935	$	$	$	$ 19,935	$
Other	$ 555,908	$	$	$ (548)	$ 555,360	$

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Fiduciary Net Position

August 31, 2016 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	$ 1,030,034	$ 647	$ 890,861	$ 1,376,396
Restricted Cash and Cash Equivalents			14	
Securities Lending Collateral	18,303,221			
Investments:				
U.S. Government	23,901,669	9,163,605	92,477	391,978
Corporate Equity	27,699,757		69,269	401,937
Corporate Obligations	40,726	1,207,866	2,961	223
Repurchase Agreements		3,078,116		32,935
Foreign Securities	34,310,289		54,470	
Externally Managed Investments	58,443,169			
Other	14,224,487	844,970	2,772,333	157,373
Receivables:				
Federal	189,308			
Interest and Dividends	285,390	9,447	82	1,055
Accounts	475,538		100	9,922
Taxes				10
Investment Trades	1,400,819			
Other	119,141		4,369	
Due From Other Funds (Note 12)	96,415			8
Prepaid Items	70			
Loans and Contracts			644	
Properties, at Cost, Net of Accumulated				
Depreciation or Amortization	77,076		688	
Other Assets			106,280	1,389,122
Total Assets	180,597,109	14,304,651	3,994,548	3,760,959
LIABILITIES				
Payables:				
Accounts	$ 376,299	$ 5,999	$ 20,507	$ 1,109
Investment Trades	654,973	9,935		
Payroll	5,313			
Other Intergovernmental				995,021
Interest			6	
Annuities	138,542			
Due To Other Funds (Note 12)	517,399			638
Unearned Revenue	1,022		556	
Employees' Compensable Leave	11,680			
Obligations/Securities Lending	18,290,867			
Payable from Restricted Assets			752	
Funds Held for Others			106,347	2,764,179
Other Liabilities	139,471	379	293,419	12
Total Liabilities	20,135,566	16,313	421,587	3,760,959
NET POSITION				
Restricted for Pensions	159,809,350			
Held in Trust for:				
OPEB and Other Purposes**	652,193			
Individuals, Organizations and Other Governments			3,572,961	
Pool Participants		14,288,338		
Total Net Position	$ 160,461,543	$ 14,288,338	$ 3,572,961	$ 0

The accompanying notes to the financial statements are an integral part of this statement.

* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

** Other Post Employment Benefits (OPEB)

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	$ 3,948,734	$	$
State Contributions	3,427,552		
Premium Contributions	597,551		
Federal Contributions	193,926		4,166
Other Contributions	1,830,491		201,202
Total Contributions	9,998,254	0	205,368
Investment Income:			
From Investing Activities:			
Net Increase in Fair Value of Investments	4,562,514		61,387
Interest, Dividend and Other	6,157,477	54,967	136,926
Total Investing Income	10,719,991	54,967	198,313
Less Investing Activities Expense	274,252	7,374	3,673
Net Income from Investing Activities	10,445,739	47,593	194,640
From Securities Lending Activities:			
Securities Lending Income	166,353		
Less Securities Lending Expense:			
Borrower Rebates	60,102		
Management Fees	10,627		
Net Income from Securities Lending	95,624	0	0
Total Net Investment Income	10,541,363	47,593	194,640
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	0	1,617,803	0
Other Additions:			
Settlement of Claims	7,137		4,714
Other Revenue	3,490		249,376
Transfer In (Note 12)	112,944		7,854
Total Other Additions	123,571	0	261,944
Total Additions	20,663,188	1,665,396	661,952
DEDUCTIONS			
Benefits	14,362,899		180,136
Refunds of Contributions	459,989		
Transfer Out (Note 12)	109,688		7,877
Intergovernmental Payments			52,336
Administrative Expenses	71,280		5,763
Depreciation and Amortization Expense	4,330		39
Settlement of Claims			5,168
Interest Expense	14		8
Loss on Impairment of Capital Assets	1		
Other Expenses	13,042		241,256
Total Deductions	15,021,243	0	492,583
INCREASE IN NET POSITION	5,641,945	1,665,396	169,369
NET POSITION			
Net Position, September 1, 2015	154,819,598	12,874,456	3,613,514
Restatements (Note 14)		(251,514)	(209,922)
Net Position, September 1, 2015, as Restated	154,819,598	12,622,942	3,403,592
Net Position, August 31, 2016	$ 160,461,543	$ 14,288,338	$ 3,572,961

The accompanying notes to the financial statements are an integral part of this statement.

* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

State of Texas
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Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the state of Texas were prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state implemented four GASB statements in fiscal 2016.

GASB Statement No. 72, *Fair Value Measurement and Application*, modifies the previous definition of fair value and an investment as it addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments. GASB Statement No. 72 also sets forth disclosure requirements about fair value measurements, the level of fair value hierarchy and valuation techniques.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well for as assets accumulated for the purposes of providing pensions. The provisions of GASB Statements No. 67 and 68 that are amended by this statement are not applicable to Texas. The Judicial Retirement System of Texas Plan One (JRS1Plan) which is outside the scope of GASB Statement No. 68 was removed from the pension and other employee benefit trust fund and was reported under the general revenue fund. The other requirements of the statement will be effective in 2017 and therefore will be implemented next year.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 reduces the hierarchy of GAAP to two authoritative categories. It also addresses the use of non-authoritative literature in the event that no guidance is available within the authoritative GAAP for the accounting treatment of a particular transaction or event.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain investment pools and pool participants. It establishes criteria for a qualifying external investment pool to elect to measure and report its investments at amortized cost instead of fair value.

Financial Reporting Entity

For financial reporting purposes, the state of Texas includes all agencies, boards, commissions, authorities, institutions of higher education and other organizations that compose its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of:

- General government
- Education
- Employee benefits
- Teacher retirement state contributions
- Health and human services
- Public safety and corrections
- Transportation
- Natural resources and recreation
- Regulatory services

The reporting entity for the state is in accordance with the criteria established by GASB. Note 19 provides

a listing and brief summary of the component units and their relationship to the state of Texas. The government-wide financial statements present the balances and activities of the state of Texas (the primary government) and its component units.

The state's public school districts, junior and community colleges are excluded from the state's financial reporting entity. These entities are legally separate and fiscally independent from the state. The state is not financially accountable for these entities and it will not make the state's financial statements misleading to exclude them.

Financial Reporting Structure

The basic financial statements include government-wide financial statements, fund financial statements and notes to the financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the state as a whole – its financial position at the end of the fiscal year and the change in financial position resulting from the activities of the fiscal year, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), and its discretely presented component units. These statements also report all current and noncurrent assets and liabilities, revenues, expenses, and gains and losses of the state using an economic resources measurement focus and an accrual basis of accounting.

The statement of net position is presented in a net position format. The net position is displayed in three components: net investment in capital assets; restricted (presented with major categories of restrictions); and unrestricted. This statement reports deferred outflows of resources and deferred inflows of resources in separate categories from assets and liabilities and distinguishes between restricted and unrestricted current and noncurrent assets.

The statement of activities reflects both the gross expense and net expense/revenue by function (public safety and corrections, transportation, etc.) The net expense/revenue is calculated by netting program expenses, including depreciation and amortization, against program revenues for each program. The net expense/revenue identifies the extent to which each function draws from the general revenues of the state or is self-financing through fees and intergovernmental aid.

Program revenues are directly associated with a function of governmental or business-type activities. Internally dedicated resources are reported as general revenues rather than program revenues.

Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Charges for services arise from charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants from other governments, organizations or individuals. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

Certain general government administrative overhead expenses are charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses. Other expenses reported for each function are clearly identifiable to that particular function and are direct expenses. The amount of direct interest expense included in direct expenses in the statement of activities is $613.1 million.

Fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust and agency). The assets of fiduciary funds are held for the benefit of others and cannot be used to finance activities or obligations of the government. They are therefore not incorporated into the government-wide financial statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary nonmajor funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments not restricted for specific purposes. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources, and how the state's actual results of activities conform to the budget. A reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-based financial statements to the reporting entity-based financial statements.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest payments. Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capi-

tal assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. Permanent funds are used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** is the primary operating fund for the state and includes transactions for general government, education, employee benefits, teacher retirement state contributions, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services.

The **State Highway Fund**, a special revenue fund, receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Proprietary funds are reported using economic resources measurement focus and full accrual basis of accounting. Generally accepted accounting principles similar to those used by private-sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity.
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), to be recovered with fees and charges.
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds are used to report any activity that provides goods or services, on a cost reimbursement basis, to other funds, departments or agencies of the reporting entity or other governments. The Employees Life, Accident and Health Insurance Benefits Fund accounts for the services provided to state of Texas agencies and institutions of higher education that participate in the Texas Employees Group Benefits Program.

The major enterprise funds for the state are listed below.

The **Colleges and Universities** include:

- University of Texas System
- Texas A&M University System
- Texas Tech University System
- University of Houston System
- Texas State University System
- University of North Texas System
- Texas Woman's University
- Stephen F. Austin State University
- Texas Southern University
- Midwestern State University
- Texas State Technical College

These institutions of higher education are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

The **Unemployment Trust Fund** contains the activity of the state related to the administration of state and federally financed unemployment benefits.

The **Lottery Fund** receives fees from external users and uses the fees to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans.

External investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments. These trusts include tobacco settlement money, reserve for insurance company liquidations, relief of catastrophic insurance losses, contributions of prison inmates, educational savings plans and others.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments. Agency funds include those funds established to account for the collection of sales and use tax for distribution to localities, bond escrow funds, deposits of insurance carriers, child support collections and other miscellaneous accounts.

Component Units

All component units of the state of Texas are reported as nonmajor component units. The combining statement of net position – component units and the combining statement of activities – component units are discretely presented.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

Basis of Accounting, Measurement Focus and Financial Statement Presentation

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent, are reported. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which partially amended GASB Statement No. 33.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other

financing sources) and decreases (i.e., expenditures and other financing uses) in current financial resources.

Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The state of Texas considers all major revenues (i.e., operating grants and contributions and taxes) reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

In the governmental fund financial statements, revenues that are earned but not expected to be collected within 60 days are not available to liquidate the liabilities of the current period and are reported as deferred inflows of resources. Unearned revenue is recorded when cash or other assets are received prior to being earned.

Under the accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Amounts paid to acquire capital assets are capitalized as assets rather than reported as expenditures as they would be under the modified accrual basis of accounting used in the governmental fund financial statements. Proceeds of long-term debt are recorded as liabilities rather than other financing sources under the modified accrual basis. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than expenditures.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and capital asset depreciation and amortization. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenses.

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budgetary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and the other nonmajor special revenue funds listed in other supplementary information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the federal and state treasuries, and cash equivalents. Cash in local banks is primarily held by enterprise funds, discrete component units, employee benefit trust funds and agency funds. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds presents the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near maturity they present insignificant risk of a decrease in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statements of net financial position with exceptions. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Texas local government investment pool (TexPool) and Texas local government investment pool prime (TexPool Prime) meet the criteria for a qualifying external investment pool under GASB Statement No. 79. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at date of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities.

Receivables and Payables

The major receivables for governmental activities are federal revenue and taxes receivables. The major receivables for business-type activities are gifts, pledges, donations and patient receivables. Receivables represent amounts due to the state as of Aug. 31, 2016, from private persons or organizations. Amounts expected to be collected within the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables are recorded net of allowances for uncollectible accounts.

Taxes receivable represent amounts earned in fiscal 2016 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as unearned revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 23 for details on taxes receivable and tax refunds payable.

Other receivables in the general fund consist primarily of program receivables for health care assistance and supplemental nutrition assistance. Other receivables in the colleges and universities fund consist primarily of receivables from investments and from external parties and other companies. Other receivables in proprietary funds other than the colleges and universities fund consist of receivables related to unemployment compensation benefit overpayments. Other receivables in the pension and other employee benefit trust funds consist primarily of receivables for rebate income from pharmaceutical manufacturers for prescription drugs under a retiree group health insurance program. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as due from/due to other funds. Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Noncurrent interfund receivables in the general fund, as shown in Note 12, are reported as nonspendable fund balance. Noncurrent interfund receivables in other governmental funds are reported as committed, restricted or assigned fund balance.

Investment trade receivables are reported for sales of investments pending settlement. Investment trade payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories and prepaid items that appear in both governmental and proprietary fund types. The costs of inventories are expensed when they are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements.

Capital Assets

Capital assets are reported in proprietary funds, fiduciary funds and on the government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2 includes a table identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state's depreciation/amortization policy and other detailed information.

The state has adopted the depreciation method for reporting its highway system. The Texas Department of Transportation, the state agency responsible for construction and maintenance of the state's road and highway systems adopted the composite approach for reporting infrastructure and bridges. The composite approach is a method for calculating depreciation of a group of similar and dissimilar assets of the same class (all the roads and bridges of the state) using the same depreciation rate. The composite depreciation rate for 2016 is 2.5 percent based on a 40-year weighted average life expectancy of the assets in service.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net position requires two components – the amount due within one year (current) and the amount due in more than one year (noncurrent).

General long-term liabilities consist of claims and judgments, capital lease obligations, employees' compensable leave and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net position. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts are currently amortized over the life of the bonds using the straight-line method. State agencies also have options of using bonds outstanding or the effective interest method. Bonds payable are reported net of the applicable bond accretion, premium or discount. Gain/loss on refunding is reported as deferred inflows of resources or deferred outflows of resources, respectively, and amortized over a shorter final maturity of the refunded or the refunding bonds. Issuance costs are expensed in the period incurred.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current period. The face amount of the debt issued and the related premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employee. Benefits are earned when the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime under the federal Fair Labor Standards Act and state laws can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unused overtime is included in the calculation of current and noncurrent liabilities because each employee may be paid for the overtime or use it as compensatory time.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. In 2009, the 81st Legislature passed House Bill 2559, which does not allow employees hired on or after Sept. 1, 2009, to apply unused sick or annual leave as service credit to meet retirement eligibility. State employees hired before Sept. 1, 2009, are entitled to service credit in the retirement system for unused sick or annual leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave was not determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 8 provides details for capital lease obligations.

Conduit Debt Obligations

Conduit debt issued by the state in the form of bonds is for the express purpose of providing capital financing for a specific third party that is not part of the state's financial reporting entity. The bonds are secured by the property financed and are payable solely from payments received from the third party on the underlying loans. The state has no obligations for the debt beyond the resources provided by the third party on

whose behalf the bonds were issued. The state has chosen to continue reporting conduit debt obligations as long-term liabilities on the balance sheet for debt issued prior to GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations, an Interpretation of NCGA Statement 1*, as well as subsequent debt obligations that are substantially the same as those already reported. Interpretation 2, which was effective for Texas beginning Sept. 1, 1996, requires only note disclosure for issuance of all other conduit debt. Note 6 provides details on conduit debt obligations.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, *Elements of Financial Statements*, as the consumptions and acquisitions of net assets by the government that are applicable to future periods. Based on this concept, the state reports the following as deferred outflows of resources or deferred inflows of resources:

- various types of revenues earned but not available within 60 days of fiscal year end.
- gains and losses on bond refunding transactions.
- the difference between the fair value of the capital assets constructed or improved and the present value of contractual liabilities in service concession arrangements (SCAs) reported as deferred inflows of resources. Note 26 provides details on SCAs.
- the changes in the fair value of hedging derivative instruments reported as either deferred outflows of resources or deferred inflows of resources. Note 7 presents additional information about derivative instruments.
- certain changes in net pension liability reported as either deferred outflows of resources or deferred inflows of resources. Note 9 provides details on pensions.
- the excess consideration given over the net position acquired in the acquisition of the Texas Wesleyan University Law School reported as deferred outflows of resources.

Note 27 provides details on deferred outflows of resources and deferred inflows of resources.

Net Position and Fund Balances

The state reports restricted net position when constraints placed on resources are either:

- externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments; or
- imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net position is designated as either expendable or nonexpendable. Expendable restricted resources are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted resources are those required to be retained in perpetuity. Restricted resources include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Net investment in capital assets, consists of capital assets – including restricted capital assets – net of accumulated depreciation/amortization and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of net investment in capital assets. The unspent portion of the debt is included in the "Restricted for Capital Projects" category of net position.

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned

or unassigned. Nonspendable fund balances include amounts that cannot be spent because they are either not in a spendable form or they are legally or contractually required to be maintained intact. Fund balances are reported as restricted when constraints placed upon the use of resources are either:

- externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments; or
- imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed through legislation passed into law by formal action of the Texas Legislature, the state's highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Fund balances are reported as assigned when the state intends for resources to be used for specific purposes, yet the constraints do not meet the requirements to be reported as restricted or committed. Intent is expressed by either the Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balances represent amounts that have not been restricted, committed or assigned to specific purposes. The Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts shall determine the procedures and policies for determining assigned fund balances. The general fund is the only fund that can report a positive unassigned fund balance. Note 13 presents disaggregated fund balances.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed. When only unrestricted resources are available for use, it is the state's policy to use committed resources first, then assigned resources, and lastly unassigned resources.

Interfund Activity and Transactions – Government-wide Financial Statements

Interfund activities are presented on the fund financial statements but are not carried forward to the government-wide financial statements. The interfund activities on the government-wide financial statements are consolidated to present only the activities between governmental activities and business-type activities. Interfund services provided and used are allocated to various functions within the primary government. Interfund activity with fiduciary funds is reclassified and reported as external activity.

Interfund payables and receivables are also presented on the fund financial statements, but not carried forward to the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. Interfund activities between the primary government and component units with a different fiscal year-end are limited and immaterial.

Interfund transactions with discretely presented component units are reclassified and reported as external activity. Note 12 provides details of interfund activities and transactions.

Risk Financing

The state maintains a combination of commercial insurance and self-insurance programs. The state is self-insured for workers' compensation and unemployment compensation claims. The liabilities are funded on a pay-as-you-go basis. The group insurance programs are provided through a combination of insurance contracts, self-funded health plans and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. See Note 17 for additional information.

Note 2

Capital Assets

Capital assets of governmental funds, which include land, infrastructure, buildings, equipment and intangible assets are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net position. Capital assets of other funds and component units are capitalized in the fund in which they are utilized. Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. The capitalization thresholds and estimated useful lives of the state's various categories of capital assets are presented in the table below.

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets (Library Books, Leasehold Improvements and Livestock)		
Depreciable	Various	3-22 years
Non-Depreciable	0	Not applicable
Internally Generated Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Permanent	0	Not applicable
Land Use Rights – Term	100,000	10-60 years
Other Intangible Capital Assets	100,000	3-15 years

The tables on the following pages present the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2016. The adjustments column includes assets not previously reported, accounting errors and other changes. The reclassifications column includes amounts for transfers of capital assets between agencies and reclassifies amounts for completed construction projects previously reported as construction in progress. The additions column includes current year purchases, depreciation and amortization. The deletions column includes assets removed during the current fiscal year.

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Depreciation or amortization is reported on all "exhaustible" assets. "Inexhaustible" assets, such as works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered "exhaustible" assets and are depreciated. Intangible assets with determinable useful lives are amortized. Donated assets are reported at the acquisition value. Assets are depreciated or amortized over their estimated useful life using the straight-line method.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state's highway infrastructure is reported using the depreciation approach.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities. For proprietary fund types and fiduciary funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized. In proprietary fund types, $359.1 million of interest was charged to expense and $29.9 million of interest was capitalized, for a net $389 million of interest cost incurred.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/15	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/16
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 11,601,206	$ 55,255	$ (1,357)	$ 959,526	$ (5,004)	$ 12,609,626
Infrastructure	548		88			636
Construction in Progress	12,443,817	47,437	(2,333,343)	5,680,751		15,838,662
Other Capital Assets	44,443	1	27,990	27	(146)	72,315
Land Use Rights – Permanent	94,196			25,728	(10)	119,914
Total Non-Depreciable & Non-Amortizable Assets	24,184,210	102,693	(2,306,622)	6,666,032	(5,160)	28,641,153
Depreciable Assets						
Buildings and Building Improvements	6,080,670	(3,144)	99,697	16,892	(8,171)	6,185,944
Infrastructure	79,165,551		2,166,851	3,964,979	(5,338)	85,292,043
Facilities and Other Improvements	226,526	(206)	5,974	1,270	(306)	233,258
Furniture and Equipment	1,142,539	1,258	8,257	89,601	(44,887)	1,196,768
Vehicles, Boats and Aircraft	1,166,957	66	1,783	121,525	(44,083)	1,246,248
Other Capital Assets	146,363	209	6,056	1,192	(1,353)	152,467
Total Depreciable Assets at Historical Cost	87,928,606	(1,817)	2,288,618	4,195,459	(104,138)	94,306,728
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(3,968,362)	(2,769)	28	(182,601)	5,156	(4,148,548)
Infrastructure	(15,491,755)	(41)		(1,554,741)		(17,046,537)
Facilities and Other Improvements	(166,637)	54		(6,517)	266	(172,834)
Furniture and Equipment	(852,833)	(1,051)	657	(80,542)	43,064	(890,705)
Vehicles, Boats and Aircraft	(739,127)	45	37	(75,701)	39,961	(774,785)
Other Capital Assets	(83,533)	(204)		(5,784)	1,008	(88,513)
Total Accumulated Depreciation*	(21,302,247)	(3,966)	722	(1,905,886)	89,455	(23,121,922)
Depreciable Assets, Net	66,626,359	(5,783)	2,289,340	2,289,573	(14,683)	71,184,806
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	20,901			1,452	(2,913)	19,440
Computer Software	490,323	2,014	17,750	27,840	(10,964)	526,963
Other Intangible Capital Assets – Term	79,673					79,673
Total Intangible Assets at Historical Cost	590,897	2,014	17,750	29,292	(13,877)	626,076
Less Accumulated Amortization for:						
Land Use Rights – Term	(14,163)			(2,329)	2,913	(13,579)
Computer Software	(356,252)	(193)		(49,353)	10,360	(395,438)
Other Intangible Capital Assets – Term	(24,686)			(7,967)		(32,653)
Total Accumulated Amortization*	(395,101)	(193)	0	(59,649)	13,273	(441,670)
Amortizable Assets, Net	195,796	1,821	17,750	(30,357)	(604)	184,406
Governmental Activities Capital Assets, Net	$ 91,006,365	$ 98,731	$ 468	$ 8,925,248	$ (20,447)	$ 100,010,365

* Depreciation and amortization expense was charged to governmental activities as follows:

General Government	$ 48,905
Education	20,990
Employee Benefits	2
Health and Human Services	54,966
Public Safety and Corrections	176,218
Transportation	1,623,568
Natural Resources and Recreation	37,770
Regulatory Services	3,116
Total	$ 1,965,535

Continued on the following page

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/15	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/16
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 1,764,690	$	$ 1,357	$ 278,759	$ (5,076)	$ 2,039,730
Construction in Progress	3,213,413	(916)	(2,923,122)	2,445,151	(1,053)	2,733,473
Other Capital Assets	692,675		93	22,425	(857)	714,336
Land Use Rights – Permanent	22,799					22,799
Other Intangible Capital Assets – Permanent	6,002		7,881			13,883
Total Non-Depreciable & Non-Amortizable Assets	5,699,579	(916)	(2,913,791)	2,746,335	(6,986)	5,524,221
Depreciable Assets						
Buildings and Building Improvements	29,183,354	(355)	1,982,524	186,990	(102,384)	31,250,129
Infrastructure	3,648,684	(1,204)	149,273	4,836	(932)	3,800,657
Facilities and Other Improvements	2,332,634	(593)	402,315	27,335	(4,162)	2,757,529
Furniture and Equipment	5,282,205	609	76,923	511,721	(238,062)	5,633,396
Vehicles, Boats and Aircraft	292,950	5	(1,089)	25,111	(12,556)	304,421
Other Capital Assets	1,586,170	(1,972)	8,633	64,591	(14,945)	1,642,477
Total Depreciable Assets at Historical Cost	42,325,997	(3,510)	2,618,579	820,584	(373,041)	45,388,609
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(13,160,198)	(4,537)		(1,212,734)	82,162	(14,295,307)
Infrastructure	(876,949)	(43)		(104,009)		(981,001)
Facilities and Other Improvements	(923,086)	3		(95,614)	1,914	(1,016,783)
Furniture and Equipment	(3,572,093)	(576)	(1)	(470,542)	187,869	(3,855,343)
Vehicles, Boats and Aircraft	(209,969)	(3)	(75)	(22,242)	11,668	(220,621)
Other Capital Assets	(1,050,022)	1,982		(75,688)	13,428	(1,110,300)
Total Accumulated Depreciation**	(19,792,317)	(3,174)	(76)	(1,980,829)	297,041	(21,479,355)
Depreciable Assets, Net	22,533,680	(6,684)	2,618,503	(1,160,245)	(76,000)	23,909,254
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	255					255
Computer Software	1,326,839	55	295,120	23,183	(115,557)	1,529,640
Other Intangible Capital Assets – Term	9,890				(9,578)	312
Total Intangible Assets at Historical Cost	1,336,984	55	295,120	23,183	(125,135)	1,530,207
Less Accumulated Amortization for:						
Land Use Rights – Term	(141)			(25)		(166)
Computer Software	(1,020,002)	(56)		(150,112)	115,172	(1,054,998)
Other Intangible Capital Assets – Term	(4,051)			(800)	4,808	(43)
Total Accumulated Amortization**	(1,024,194)	(56)	0	(150,937)	119,980	(1,055,207)
Amortizable Assets, Net	312,790	(1)	295,120	(127,754)	(5,155)	475,000
Business-Type Activities Capital Assets, Net	$ 28,546,049	$ (7,601)	$ (168)	$ 1,458,336	$ (88,141)	$ 29,908,475

** Depreciation and amortization expense was charged to business-type activities as follows:

Education	$ 2,072,768
Transportation	54,041
Lottery	235
Other Business-Type Activities	4,722
Total	$ 2,131,766

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/15	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/16
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 386	$	$	$	$	$ 386
Construction in Progress	160		(122)	418		456
Total Non-Depreciable & Non-Amortizable Assets	546	0	(122)	418	0	842
Depreciable Assets						
Buildings and Building Improvements	7,787	11,144		2	(2)	18,931
Facilities and Other Improvements	401					401
Furniture and Equipment	39,622	(3,167)	122	810	(2,116)	35,271
Vehicles, Boats and Aircraft	5,137			220	(304)	5,053
Other Capital Assets	2,244				(306)	1,938
Total Depreciable Assets at Historical Cost	55,191	7,977	122	1,032	(2,728)	61,594
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(5,897)	(80)		(182)	2	(6,157)
Facilities and Other Improvements	(397)					(397)
Furniture and Equipment	(21,479)	2,723		(3,293)	1,848	(20,201)
Vehicles, Boats and Aircraft	(2,059)			(875)	205	(2,729)
Other Capital Assets	(721)	204		(179)	258	(438)
Total Accumulated Depreciation	(30,553)	2,847	0	(4,529)	2,313	(29,922)
Depreciable Assets, Net	24,638	10,824	122	(3,497)	(415)	31,672
Intangible Capital Assets – Amortizable						
Computer Software	424					424
Total Intangible Assets at Historical Cost	424	0	0	0	0	424
Less Accumulated Amortization for:						
Computer Software	(262)			(12)		(274)
Total Accumulated Amortization	(262)	0	0	(12)	0	(274)
Amortizable Assets, Net	162	0	0	(12)	0	150
Component Units Capital Assets, Net	$ 25,346	$ 10,824	$ 0	$ (3,091)	$ (415)	$ 32,664

The state's capitalization policy regarding works of art and historical treasures is that capitalization is encouraged, but not required, for works of art and historical treasures that meet certain conditions. Works of art and historical treasures not required to be capitalized are those:

- held for public exhibition, education or research in furtherance of public service, rather than for financial gain;
- protected, kept unencumbered, cared for and preserved; and/or
- subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 36 million records dating back to 1720, including approximately 45 thousand maps, sketches and plat maps.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Texas Comptroller of Public Accounts Treasury Operations Division (Treasury) by the Texas Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States and its agencies and instrumentalities, bankers' acceptances, commercial paper and contracts written by the Comptroller's office, which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2016. The Trust Company safe-keeps U.S. Government securities in book-entry form for the major investment funds, safe-keeps collateral pledged to secure deposits of the Treasury in financial institutions, and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units, public employee retirement systems and institutions of higher education are authorized to invest funds not deposited with the Treasury. As of Aug. 31, 2016, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported more than 89 percent of the total investment fair value; this does not include the investments held by the Texas Comptroller's Treasury Pool. TRS, PSF, ERS, UT and Texas Prepaid Higher Education Tuition Board (TPHETB) make investments following the "prudent investor rule." Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2016, no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loan institutions. Eligible collateral securities are prescribed by state law; however, retirement systems and PSF are exempt by statute from this requirement.

External Investment Pool

The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Separate audited financial statements may be obtained by contacting:

Texas Treasury Safekeeping Trust Company
208 E. 10th St., 4th floor
Austin, Texas 78701.

Deposits

As of Aug. 31, 2016, the carrying amounts of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units were $1.2 billion, $344.5 million and $222.7 million, respectively. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net position as part of the cash and cash equivalents and investment related line items. As of Aug. 31, 2016, the total bank balances for governmental and business-type activities, fiduciary funds and discretely presented component units were $1.2 billion, $337.6 million and $204.4 million, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state's securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. The bank balances exposed to custodial credit risk as of Aug. 31, 2016, are presented in the table below.

Bank Balances Exposed to Custodial Credit Risk

August 31, 2016 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 10,017	$
Total Governmental Activities	10,017	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	1,339	102,692
Total Business-Type Activities	1,339	102,692
Total Governmental and Business-Type Activities	$ 11,356	$ 102,692
FIDUCIARY FUNDS	$ 142,150	$ 0
COMPONENT UNITS	$ 560,846	$ 0

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. The table below presents the bank balances exposed to foreign currency risk as of Aug. 31, 2016.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2016 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Australian Dollar	$ 1,568	$ 9,556
Bangladeshi Taka		61
Botswana Pula		22
Brazilian Real	30	1,773
British Pound	203	8,182
Canadian Dollar	(15)	6,817
Chilean Peso	155	449
Chinese Yuan Renminbi		8
Colombian Peso		129
Croatian Kuna		54
Czech Koruna		449
Danish Krone	8	69
Egyptian Pound		1,463
Euro	9	25,498
Ghanaian Cedi		162
Hong Kong Dollar	1,395	11,500
Hungarian Forint		2
Indian Rupee		3,637
Indonesian Rupiah		417
Israeli New Shekel	12	70
Japanese Yen	4	39,051
Jordanian Dinar		87
Kenyan Shilling		31
Kuwaiti Dinar		36
Malaysian Ringgit		1,278
Mauritius Rupee		22
Mexican Peso	73	3,106
Moroccan Dirham		164
New Zealand Dollar	1	668
Nigerian Naira		92
Norwegian Kroner		1,975
Omani Rial		56
Pakistan Rupee		76
Peruvian Nuevo Sol		82
Philippine Peso		32
Polish Zloty		318
Qatar Riyal	407	74
Romanian New Lei		71

Concluded on the following page

Bank Balances Exposed to Foreign Currency Risk (concluded)

August 31, 2016 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Singapore Dollar	$ 40	$ 632
South African Rand		2,338
South Korean Won	93	289
Sri Lankan Rupee		67
Swedish Krona	1	116
Swiss Franc	5	(507)
Taiwan Dollar	2,695	6,924
Thai Baht	54	193
Tunisian Dinar		57
Turkish Lira	8	253
United Arab Emirates Dirham		896
Vietnamese Dong		125
Total	$ 6,746	$ 128,920

Investments

The state's investments are recorded at fair value and have been categorized based upon a fair value hierarchy in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

In accordance with GASB Statement No. 72, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which may be in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment to consider both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used to value certain securities without relying exclusively on quoted prices for those securities by comparing them to benchmark or comparable securities.
2. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount. These techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models, binomial or lattice models that incorporate present value techniques and the multi-period excess earnings method.
3. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset or its current replacement cost. From the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

GASB Statement No. 72 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace and other characteristics particular to the transaction.

GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

- Level 1 inputs – Unadjusted, quoted prices in active markets that are accessible at the mea-

surement date for identical assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 inputs – Inputs, other than quoted prices in active markets that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs – Inputs are unobservable inputs and should be used only if relevant Level 1 and Level 2 inputs are not available. The state may use their own data or assumptions to develop unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment.

The state has some investments that are not subject to GASB Statement No. 72. Investments not measured at fair value include money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less. These investments are reported at amortized cost.

U.S. treasury securities, equity securities, fixed income money market and bond mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt and debt derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Index linked debt securities are valued by multiplying the external market price feed by the applicable day's index ratio. Level 2 debt securities also have non-proprietary information from multiple independent sources that were readily available to market participants who are known to be actively involved in the market. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Level 3 debt securities use proprietary information or single source pricing. Value of equity securities classified in Level 3 is based on last trade data that is 30 days or more before the fiscal year-end or not qualified to be reported in Level 1, Level 2 or at NAV. Real assets classified in Level 3 are real estate investments generally valued using the income approach by internal manager reviews or independent external appraisers, except for the lands with interest in oil and gas described below.

The fair value of the state permanent school fund (PSF) and permanent university fund (PUF) lands' interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on Aug. 31, 2016. A percentage of probable and possible reserves of oil and gas are included in the fair value estimate. The PSF and PUF lands' surface interests are reported at the price per acre from the American Society of Farm Managers and Rural Appraisers. The PSF and PUF lands are categorized as Level 3 in the fair value hierarchy. The remaining minerals, the trust minerals, because of size, distribution, and limited production histories are valued at three times the previous 12 months revenue. This measure has been used historically to determine the selling price of these types of properties by willing parties. Other types of real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent state certified or other licensed appraiser or tax

assessments used for real estate investments with values that are not significant or by any other generally accepted industry standard. The fair values of investments as of Aug. 31, 2016, are presented in the tables below.

Investments Fair Values
Governmental & Business Type Activities

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 2,814,858	$ 2,307,441	$	$ 5,122,299
U.S. Treasury Strips	315,352			315,352
U.S. Treasury TIPS	1,103,108			1,103,108
U.S. Government Agency Obligations	1,281,969	7,038,900		8,320,869
Corporate Obligations	62,040	4,501,505	972	4,564,517
Corporate Asset and Mortgage Backed Securities	2,915	3,196,053		3,198,968
Equity	10,490,532	4,578	36,633	10,531,743
International Obligations (Govt and Corp)	2	5,402,285	6,761	5,409,048
International Equity	3,719,661	10,994	37	3,730,692
International Other Commingled Funds	488,642	255,861		744,503
Repurchase Agreement	1,638,347			1,638,347
Mutual Funds - Domestic/International	655,274		910	656,184
Fixed Income Money Market and Bond Mutual Fund	5,986,169	6,173	243	5,992,585
Other Commingled Funds	182,828	89,058	87,886	359,772
Commercial Paper	391,246	8,279,899		8,671,145
Invested Collateral	9,850	2,124,975		2,134,825
Securities Lending Collateral Investment Pool	28,223			28,223
Real Estate	41	111	8,621,183	8,621,335
Derivatives - Domestic/International	238	61,130		61,368
Externally Managed Investments - Domestic/International	4,893,512		1,039,238	5,932,750
Miscellaneous	1,476,447	104,526	12,285	1,593,258
Total Investments at Fair Value	35,541,254	33,383,489	9,806,148	78,730,891
INVESTMENTS AT NAV				
U.S. Government Agency Obligations				84,830
Equity				49,914
International Equity				168,858
International Other Commingled Funds				2,515,906
Repurchase Agreement				9,013
Mutual Funds - Domestic/International				88,150
Fixed Income Money Market and Bond Mutual Fund				211,275
Other Commingled Funds				14,292,643
Real Estate				2,135,487
Externally Managed Investments - Domestic/International				26,843,184
Miscellaneous				5,875
Total Investments at NAV				46,405,135
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				177,871
U.S. Government Agency Obligations				761,372
International Other Commingled Funds				95,784
Repurchase Agreement				671,754
Fixed Income Money Market and Bond Mutual Fund				363,676
Other Commingled Funds				134,004
Externally Managed Investments - Domestic/International				12,598
Miscellaneous				46,066
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				2,263,125
Total of Investments - Governmental & Business Type Activities				$ 127,399,151

Investments Fair Values
Fiduciary Funds

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 17,809,539	$ 1,921,429	$	$ 19,730,968
U.S. Treasury Strips		226,386		226,386
U.S. Treasury TIPS		5,169,585		5,169,585
U.S. Government Agency Obligations	1,862	9,744,931		9,746,793
Corporate Obligations	2,961	1,253,206		1,256,167
Corporate Asset and Mortgage Backed Securities	6	537,402		537,408
Equity	28,017,837	63,288	3,936	28,085,061
International Obligations (Govt and Corp)		1,174,639	1,366	1,176,005
International Equity	32,263,140	213	4,103	32,267,456
International Other Commingled Funds			18,914	18,914
Repurchase Agreement	171,666	3,337,001		3,508,667
Mutual Funds - Domestic/International	1,047,806		77	1,047,883
Fixed Income Money Market and Bond Mutual Fund	727,794	142,502		870,296
Other Commingled Funds	576,461			576,461
Commercial Paper		2,010,804		2,010,804
Invested Collateral	5,367,141	12,926,877		18,294,018
Derivatives - Domestic/International	7,014	34,490		41,504
Externally Managed Investments - Domestic/International			707,215	707,215
Miscellaneous	645,180	10,001		655,181
Total Investments at Fair Value	86,638,407	38,552,754	735,611	125,926,772
INVESTMENTS AT NAV				
Equity				418
International Equity				1,699
International Other Commingled Funds				4,733,036
Mutual Funds - Domestic/International				587,808
Fixed Income Money Market and Bond Mutual Fund				4,743
Other Commingled Funds				3,991,563
Externally Managed Investments - Domestic/International				60,048,532
Miscellaneous				3,228,039
Total Investments at NAV				72,595,838
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				33,149
U.S. Government Agency Obligations				7,993
Repurchase Agreement				804,845
Fixed Income Money Market and Bond Mutual Fund				15,058
Invested Collateral				9,203
Externally Managed Investments - Domestic/International				9,267
Miscellaneous				1,900
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				881,415
Total of Investments - Fiduciary Funds				$ 199,404,025

Investments Fair Values Discrete Components

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 5,025	$ 31,571	$	$ 36,596
U.S. Government Agency Obligations	4,010	91,698		95,708
Corporate Obligations		32,037		32,037
Corporate Asset and Mortgage Backed Securities		117,414		117,414
Equity	11,045	117		11,162
International Obligations (Govt and Corp)		35,946	1,045	36,991
International Other Commingled Funds		6,123		6,123
Repurchase Agreement	22,922			22,922
Mutual Funds - Domestic/International	163,843		13	163,856
Fixed Income Money Market and Bond Mutual Fund	37,703	(453)		37,250
Other Commingled Funds		7,497		7,497
Commercial Paper	7,547	115,842		123,389
Real Estate			13,468	13,468
Derivatives - Domestic/International		160		160
Externally Managed Investments - Domestic/International		79,617	11,229	90,846
Miscellaneous	490,853			490,853
Total Investments at Fair Value	742,948	517,569	25,755	1,286,272
INVESTMENTS AT NAV				
International Other Commingled Funds				19,737
Mutual Funds - Domestic/International				73
Fixed Income Money Market and Bond Mutual Fund				11,767
Other Commingled Funds				13,362
Externally Managed Investments - Domestic/International				48,977
Miscellaneous				134
Total Investments at NAV				94,050
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
Repurchase Agreement				553,761
Fixed Income Money Market and Bond Mutual Fund				3,213
Other Commingled Funds				323
Miscellaneous				1,652
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				558,949
Total of Investments - Discrete Components				$ 1,939,271

The state utilizes the net asset value (NAV) per share as a method for determining fair value for certain investments in equity, repurchase agreements, commingled funds, mutual funds, real estate, fixed income money market, and externally managed investment. These investments calculate the NAV consistent with the Financial Accounting Standards Board's (FASB) measurement principles for investment companies and the state does not intend to sell all or portion of the investment for an amount that is different from the NAV. These investments are exempt from classification within the fair value hierarchy.

TRS, PSF, ERS and UT account for 90% of the value reported at NAV. For more detailed information about the redemption frequency, redemption notice period, related unfunded commitments, redemption restrictions, and the significant investment strategies of these agencies pertaining to their investments reported at NAV, please refer to the individual financial statements of the agency by contacting:

Employment Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711

Teacher Retirement System of Texas
1000 Red River St.
Austin, Texas 78701

Texas Permanent School Fund
400 West 15th St.
Austin, Texas 78701

The University of Texas
601 Colorado St.
Austin, TX 78701

The investments measured at NAV per share as of Aug. 31, 2016, including unfunded commitments, are presented in the table below.

Investments Reported at Net Asset Value (NAV)

August 31, 2016 (Amounts in Thousands)

INVESTMENT TYPE	Fair Value	Redemption Frequency	Redemption Notice Period	Unfunded Commitment
Alternative	$ 16,154,329	Quarterly	180 days	$ 13,228,433
Commingled Funds	8,953,397	Daily - Annually	1 - 90 days	
Energy, Natural Resources, Infrastructure	4,170,203	Monthly, Quarterly	45 - 90 days	3,902,770
Fixed Income	2,344,552	Daily - Quarterly	1 - 90 days	118,376
Hedge funds	29,711,699	Daily - 5yr	0 - 2yr	762,675
Mutual Funds	6,073,869	Daily - Monthly	1 - 30 days	
Private Equity	23,259,631	Daily - Annually	4 - 180 days	13,560,973
Real Estate	22,809,054	Monthly - Quarterly	45 - 90 days	12,139,220
Risk Parity	5,533,459	Monthly	5 - 15 days	300,000
U.S. Government Obligations	84,830	NA	NA	
Total Investments at Fair Value	$ 119,095,023			$ 44,012,447

Alternative: These investments are externally managed and invest in multiple types of assets and securities, which may include hedge funds, private equity, and the other types described below.

Commingled Funds: An external manager pools and invests the funds of several institutional investors. Securities are owned by the overall fund and each investor owns a pro rata share of the fund. The Security Exchange Commission (SEC) does not oversee commingled funds.

Energy, Natural Resources and Infrastructure: Energy, natural resources and infrastructure funds are also referred to as real assets. Real assets are physical assets that have value due to their substance and properties. Real assets include precious metals, commodities, agricultural land, machinery and oil.

Fixed Income: Fixed income investments generally pay a return on a fixed schedule, though the amount of the payments can vary. These investments include private fixed income funds and bonds issues by countries in emerging markets.

Hedge Funds: Hedge funds may be broadly defined as pooled funds that are not registered with the SEC, are typically available only to institutional investors or individuals with a high net worth and use advanced trading strategies such as leverage, derivatives, short selling and arbitrage.

Mutual Funds: Similar to commingled funds, the funds of multiple investors are pooled by the external manager. The investors own shares of the fund but do not own the individual securities. The public, as well as institutional investors can invest in mutual funds. In contrast with commingled funds, mutual funds are regulated by the SEC.

Private Equity: Private equity funds are privately managed investment pools, typically organized as limited partnerships. They are managed by the fund's general partners who typically make long-term investments in private companies and who may take a controlling

interest with the aim of increasing the value of these companies, often by helping to manage the companies. Private equity fund strategies include venture capital investments and leveraged buyouts among others.

Real Estate: Includes real estate held for investment directly or through investment vehicles such as private investment funds, which are limited partnerships that invest in real estate. Such investments are designed to produce high current income and/or capital gains through appreciation in the underlying real estate.

Risk Parity: Risk parity is a portfolio allocation strategy based on targeting risk levels across the various components of an investment portfolio. The risk parity approach to asset allocation allows investors to target specific levels of risk and to divide that risk equally across the entire investment portfolio in order to achieve optimal portfolio diversification for each individual investor. Risk parity strategies are in contrast to traditional allocation methods that are based on holding a certain percentage of investment classes, such as 60 percent stocks and 40 percent bonds, within one's investment portfolio.

U.S. Government Obligations: These investments are made in an index fund which invests in securities issued by the U.S. Treasury and U.S. Government Agencies.

TRS, PSF, ERS, UT and TPHETB participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the individual entity. Additional information about securities lending activity is disclosed in the "Securities Lending" section of this note. As of Aug. 31, 2016, the investment type balances for the invested securities lending cash collateral are presented in the tables below.

Invested Securities Lending Collateral Fair Value Governmental and Business Type Activities

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$	$ 27,070	$	$ 27,070
U.S. Government Agency Obligations		145,115		145,115
Corporate Obligations		103,668		103,668
Corporate Asset and Mortgage Backed Securities		433,053		433,053
Equity		2,055		2,055
International Obligations (Govt and Corp)		232,872		232,872
Repurchase Agreement	9,850	458,947		468,797
Commercial Paper		455,215		455,215
Miscellaneous		266,980		266,980
Total Investments at Fair Value	$ 9,850	$ 2,124,975	$ 0	$ 2,134,825

Invested Securities Lending Collateral Fair Value Fiduciary Funds

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
Repurchase Agreement	$ 5,077,148	$	$	$ 5,077,148
Commercial Paper	289,993	12,926,877		13,216,870
Total Investments at Fair Value	5,367,141	12,926,877	0	18,294,018
INVESTMENTS AT NOT SUBJECT TO GASB 72				
Miscellaneous				9,203
Total Investment not subject to GASB 72				9,203
Total of Investments - Fiduciary Funds				$ 18,303,221

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the value of its investments or collateral securities in the possession of an outside party will not be recovered. There is no formal investment policy for managing custodial credit risk. Consistent with the securities lending program, underlying securities on loans are subject to custodial credit risk.

As of Aug. 31, 2016, the investments exposed to custodial credit risk are presented in the table below.

Investments Exposed to Custodial Credit Risk

August 31, 2016 (Amounts in Thousands)

	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent but Not in the State's Name
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
U.S. Government Obligations	$	$ 145,115
Corporate Obligations		51,747
Corporate Asset and Mortgage Backed		433,053
Repurchase Agreements		60,276
Commercial Paper		404,955
Miscellaneous		267,071
Total Governmental Activities	0	1,362,217
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Treasury	4,606	
U.S. Government Agency	4,471	
Corporate Obligations	5,364	
Corporate Equity	32,014	
International Equity	4,336	
Fixed Income and Bond Mutual Fund	21,639	
Other Proprietary Funds		
Repurchase Agreement	13,947	
Total Business-Type Activities	86,377	0
Total Governmental and Business-Type Activities	$ 86,377	$ 1,362,217

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and UT are exposed to investment foreign currency risk. TRS, PSF and ERS do not have an investment policy for managing foreign currency risk. UT's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

The investments exposed to foreign currency risk as of Aug. 31, 2016, are presented on the following pages.

Investments Exposed to Foreign Currency Risk

August 31, 2016 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds			
	International Obligations	International Equity	International Other Commingled Funds	Other Investments	International Obligations	International Equity	International Other Commingled Funds	Other Investments
Argentine Peso	$	$	$ 260	$	$ 9,547	$ 34	$	$
Australian Dollar	215,452	74,715	710	289,126	127,781	777,432	883	
Bangladeshi Taka						10,108		
Botswana Pula						4,538		
Brazilian Real	133,042	352,488	31,953	82,243		803,963	54	
British Pound	168,602	248,889	61,723	708,456	280,852	3,193,871	4,395	525,938
Canadian Dollar	56,173	158,741	16,132	499,444		1,305,817	1,171	
CFA Franc	3,570							
Chilean Peso		245	286	12,641		85,895		
Chinese Yuan (Offshore)			7,499					
Chinese Yuan Renminbi	762	223,665	57,072	10,387		6,122		
Colombian Peso	21,600	64	2,073	5,314		35,649		
Croatian Kuna						7,348		
Czech Koruna	1,447	5,748	418	1,495		48,130		
Danish Krone	38,033	9,017	16,377	63,940		391,426	728	
Egyptian Pound		16,837	339	2,211		30,291		
Euro	322,702	266,304	101,362	1,358,616	191,083	5,611,218	610,814	2,328,911
Ghanaian Cedi						2,344		
Hong Kong Dollar	255	235,252	3,410	336,794		3,178,237		
Hungarian Forint	51,674		12	3,241		63,830		
Indian Rupee	1,279	87,392	6,857	975	86	1,007,166	2	
Indonesian Rupiah	43,865	20,122	728	29,731		437,101		
Israeli New Shekel	11,054		1,879	19,253		29,533		
Japanese Yen	306,430	387,132	(25,340)	788,758	3,530	4,283,479	1,197	
Jordanian Dinar						6,835		
Kazakhstani Tenge			93					
Kenyan Shilling						9,099		
Kuwaiti Dinar						17,981		
Lithuanian Litas				902				
Malaysian Ringgit	111,595	20,132	1,875	30,363		188,272		
Mauritius Rupee						6,595		
Mexican Peso	230,420	104,118	5,043	46,147	7,525	427,731		
Moroccan Dirham		2,724				6,976		
New Zealand Dollar	166,266		(936)	6,292	13,332	25,370		
Nigerian Naira						4,189		
Norwegian Kroner	53,680	1,055	653	21,621		301,262		
Omani Rial						6,415		
Pakistan Rupee						62,263		
Peruvian Nuevo Sol	284		266			5,669		
Philippine Peso		11,608	449	16,171		147,849		
Polish Zloty	68,315	3,099	558	11,775		120,906		
Qatar Riyal	56	9,668	500	10,458		39,046		
Romanian New Lei	4,177					11,967		
Russian Ruble	513		1,242	26,562		37,366		
Singapore Dollar	63,830	42,593	4,860	41,010		140,136		
South African Rand	76,351	38,443	4,557	75,600	4,910	807,058	157	
South Korean Won	11,910	301,381	13,042	161,881		1,710,390		
Sri Lankan Rupee						7,471		
Swedish Krona	587	22,074	(979)	92,309		322,069	432	
Swiss Franc	100	50,189	(3,552)	298,479		1,163,655	2,140	
Taiwan Dollar	172	86,485	11,101	131,487		1,026,950		
Thai Baht	12,968	38,695	3,321	25,887		321,820	260	
Tunisian Dinar						2,487		
Turkish Lira	9	11,670	1,727	14,026		237,863		
United Arab Emirates Dirham		28,817	637	9,562		47,682		
Venezuelan Boliviar Fuerte				7,894				
Vietnamese Dong		18,344	350			7,053		
Total	$ 2,177,173	$ 2,877,706	$ 328,557	$ 5,241,051	$ 638,646	$ 28,533,957	$ 622,233	$ 2,854,849

Concluded on the following page

Investments Exposed to Foreign Currency Risk (concluded)

August 31, 2016 (Amounts in Thousands)

	Component Unit		
	International Obligations	International Other Commingled Funds	Other Investments
Argentine Peso	$	$	$
Australian Dollar		83	
Bangladeshi Taka			
Botswana Pula			
Brazilian Real	19	307	130
British Pound		308	1,108
Canadian Dollar			210
CFA Franc	512		
Chilean Peso			
Chinese Yuan (Offshore)			
Chinese Yuan Renminbi	107	1,008	1,340
Colombian Peso	200	3	37
Croatian Kuna			
Czech Koruna			
Danish Krone		60	279
Egyptian Pound			
Euro	171	486	1,900
Ghanaian Cedi			
Hong Kong Dollar	28	262	
Hungarian Forint		3	
Indian Rupee	57	640	126
Indonesian Rupiah		64	
Israeli New Shekel		241	17
Japanese Yen		221	
Jordanian Dinar			
Kazakhstani Tenge			
Kenyan Shilling			
Kuwaiti Dinar			
Lithuanian Litas			116
Malaysian Ringgit		107	
Mauritius Rupee			
Mexican Peso	21	138	550
Moroccan Dirham			
New Zealand Dollar		5	
Nigerian Naira			
Norwegian Kroner			70
Omani Rial			
Pakistan Rupee			
Peruvian Nuevo Sol	10		
Philippine Peso		50	
Polish Zloty		40	
Qatar Riyal	8	54	
Romanian New Lei			
Russian Ruble	31	111	263
Singapore Dollar	11	276	
South African Rand	9	250	63
South Korean Won	38	534	
Sri Lankan Rupee			
Swedish Krona		14	
Swiss Franc			
Taiwan Dollar	23	513	
Thai Baht	17	222	
Tunisian Dinar			
Turkish Lira		114	65
United Arab Emirates Dirham		7	198
Venezuelan Boliviar Fuente			1,019
Vietnamese Dong			
Total	$ 1,262	$ 6,121	$ 7,491

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk ratings are assigned by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. The net market value of all over-the-counter derivative positions, less collateral posted, may not exceed $500 million and all over-the-counter derivative positions without collateral may not exceed 5 percent of the total market value of the fund. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio. A securities lending agent must be an organization rated A- or better by a NRSRO.

PSF's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB- and short-term money market instruments must be rated at least A-1.

ERS' general investment policy requires that noncash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio.

UT's investment policy has no requirements or limitations for investment ratings.

As of Aug. 31, 2016, the credit quality distribution for securities with credit risk exposure is presented on the following pages.

Investments Exposed to Credit Risk*

August 31, 2016 (Amounts in Thousands)

Governmental and Business-Type Activities

	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	$ 1,550,579	$ 153,311	$ 2,391,510	$ 2,756,676	$ 129,082	$	$	$ 180,198	$ 7,161,356
AA	10,301,668	1,722,171	70,576	402,184	1,940,488			164,718	14,601,805
A	19,069	816,370	38,383	572,686	114,999			41,510	1,603,017
BBB	3,622	1,295,625	185,761	434,553				98	1,919,659
BB	257	133,303	2,504	213,765				32,477	382,306
B		131,322	2,293	29,668					163,283
CCC		12,842	14,510	1,446					28,798
CC			497						497
C								1,696	1,696
D		184	3,965						4,149
AAAf						4,494,095			4,494,095
AAAm						1,815,185			1,815,185
A-1							9,077,616		9,077,616
A-2							3,110		3,110
A-3							104,570		104,570
Not Rated	161,524	617,820	924,194	994,917	194,951	1,518,294	262,445	5,944,464	10,618,609
Total	$ 12,036,719	$ 4,882,948	$ 3,634,193	$ 5,405,895	$ 2,379,520	$ 7,827,574	$ 9,447,741	$ 6,365,161	$ 51,979,751

Fiduciary Funds

	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	$ 7,599,734	$ 192	$ 203,459	$ 211,771	$ 3,877,478	$	$	$ 1,076,562	$ 12,969,196
AA	5,049,859	127,481	13,645	19,889	139,240			132	5,350,246
A		65,613	8,912	34,695				1	109,221
BBB		76,917	11,079	38,163				1,017	127,176
BB		502,696	24,989	122,716				27,941	678,342
B		336,973	32,928	97,905				5	467,811
CCC		47,968	46,209	12,911					107,088
CC			1,036						1,036
C		7							7
D		3,169	10,703					4	13,876
AAAf						43,469			43,469
AAAm						127			127
A-1							1,909,219		1,909,219
Not Rated	59,809	92,191	184,448	637,955	32,935	1,022,504		411,762	2,441,604
Total	$ 12,709,402	$ 1,253,207	$ 537,408	$ 1,176,005	$ 4,049,653	$ 1,066,100	$ 1,909,219	$ 1,517,424	$ 24,218,418

Component Units

	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	$ 6,207	$	$ 106,076	$ 34,990	$ 552,527	$	$	$ 473,136	$ 1,172,936
AA	94,932	20,494	223	3	22,922			323	138,897
A		3,758		754					4,512
BBB				93					93
BB				41					41
AAAf						10,395			10,395
A-1							123,390		123,390
Not Rated	369	7,785	11,115	1,110		62,378		5,067	87,824
Total	$ 101,508	$ 32,037	$ 117,414	$ 36,991	$ 575,449	$ 72,773	$ 123,390	$ 478,526	$ 1,538,088

* Credit risk exposure for investments may be less than their fair values due to classification differences. The total fair value of investments is appropriately greater than the credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. UT's investment policy states that no more than 5 percent of its cumulative market value of fixed income securities may be invested in a single issuer. PSF's policy precludes exceeding 2.5 percent, ERS employs a limit of 3 percent, TRS sets the limit at 20 percent and the Texas Comptroller does not place a limit on the amount the Treasury Pool may invest in any one issuer. As of Aug. 31, 2016, governmental and business-type activities did not hold more than 5 percent of investments in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and UT use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option-adjusted measure of an instrument's sensitivity to changes in interest rates. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio to be consistent with the Barclay Aggregate Bond Index's duration and the duration of the real return portfolio to be consistent with the Barclay's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. As of Aug. 31, 2016, the Barclay's Aggregate Bond Index duration was 5.83 years and the Barclay's TIPS Index was 4.04 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits, which is 60 days; bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio must be 180 days or less. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days or less. TRS, ERS and UT do not have a formal investment policy for managing interest rate risk.

As of Aug. 31, 2016, PSF's investments by investment type, fair value and the effective weighted duration rate are presented in the table below.

Investments Exposed to Interest Rate Risk

August 31, 2016

PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	$ 62,082	0.85
Collateralized Loan Obligations	160,345	0.06
Commercial Mortgage Backed Securities	100,791	5.31
Corporate Obligations	932,595	8.22
Non U.S. Government Agency Obligations	78,315	2.60
Non Agency Mortgage Backed Securities	71,869	3.67
Sovereign Government Debt	115,095	5.83
U.S. Government Agency Commercial Mortgage Backed Securities	31,929	3.40
U.S. Government Agency Mortgage Backed Securities	794,038	3.34
U.S. Government Agency Obligations	76,230	6.00
U.S. Taxable Municipal Bonds	88,493	8.60
U.S. Treasury Securities	1,373,439	5.54
U.S. Treasury TIPS	103,529	17.02
Total	$ 3,988,750	5.70
U.S. Treasury TIPS	$ 925,869	6.16
Emerging Market Debt	1,991,121	5.22
Total Real Return	$ 6,905,740	

The following table provides information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2016.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

August 31, 2016 (Amounts in Thousands)

PSF Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Asset Backed Floating Rate Notes	$ 433,053	$ 269,163	$ 163,890
Certificates of Deposit	267,071	267,071	
Commercial Paper	404,955	404,955	
Floating Rate Notes	51,747	40,243	11,504
Repurchase Agreements	60,276	60,276	
Agencies	145,115	10,019	135,096
Total	$ 1,362,217	$ 1,051,727	$ 310,490

The following table presents TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2016.

Investments Exposed to Interest Rate Risk

August 31, 2016

TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	$ 14,234,244	18.49
U.S. Government STRIPS and TIPS	5,395,972	5.34
U.S. Government Agency Obligations	12,000	11.03
Asset and Mortgage Backed Obligations	157,237	1.17
Corporate Obligations	30,923	3.26
International Government Obligations	645,941	7.84
International Corporate Obligations	7,312	4.24
Total	$ 20,483,629	14.53

As of Aug. 31, 2016, ERS' investments by investment type, fair value and the modified duration rate are presented in the table below.

Investments Exposed to Interest Rate Risk

August 31, 2016

ERS Investment Type	Fair Value (In Thousands) Fiduciary Funds	Fair Value (In Thousands) Proprietary Fund	Modified Duration Rate Fiduciary Funds	Modified Duration Rate Proprietary Fund
U.S. Treasury Securities	$ 3,565,889	$ 211,351	3.79	4.21
U.S. Government Agency Obligations	697,241	46,566	3.68	3.68
Corporate Obligations	1,018,355	59,428	4.64	4.62
Corporate Asset and Mortgage Backed Securities	159,582	10,658	2.93	2.93
International Obligations	306,513	18,204	3.65	3.57
Real Estate Investment Trust	28,945	1,679	5.87	5.87
Money Market and Bond Fund	730,884	46,486	0.08	0.08
Total	$ 6,507,409	$ 394,372	3.48	3.67

As of Aug. 31, 2016, UT's investments by investment type, fair value and the modified duration rate are presented in the table below.

Investments Exposed to Interest Rate Risk

August 31, 2016

UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 348,996	9.26
U.S. Treasury Inflation Protected	42,322	7.18
U.S. Agency Asset Backed	23,251	2.79
Total U.S. Government Guaranteed	414,569	8.69
U.S. Government Non-Guaranteed:		
U.S. Agency	6,297	0.13
U.S. Agency Asset Backed	127,616	3.85
Total U.S. Government Non-Guaranteed	133,913	3.68
Total U.S. Government	548,482	7.47
Corporate Obligations:		
Domestic	680,481	6.44
Foreign	443,748	5.98
Total Corporate Obligations	1,124,229	6.26
Foreign Government and Provincial Obligations	2,011,358	6.20
Other Debt Securities	14,922	11.84
Total Debt Securities	3,698,991	6.43
Other Investment Funds – Debt	30,679	7.00
Fixed Income Money Market Funds	2,361,470	0.21
Total	$ 6,091,140	4.02

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, ERS and UT may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. As of Aug. 31, 2016, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was $1.8 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position, there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying the reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

As of Aug. 31, 2016, the Treasury's aggregate amount of reverse repurchase agreement obligations was $44.2 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $44.1 million. There was no credit exposure during fiscal 2016.

Securities Lending

TRS, PSF, ERS, UT, TPHETB and the Veterans Land Board (VLB) participate in securities lending programs as authorized by state statute. TRS, PSF, ERS and UT established their own separately managed securities lending programs. TPHETB has its own separately managed securities lending programs but also participates in collateral investment pools. VLB participates in collateral investment pools that commingle the cash collateral of several entities. Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. TRS, ERS, UT and VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. PSF receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities. However, the required percentage is 102 percent for foreign securities denominated and payable in U.S. dollars. TPHETB receives collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The custodians of the securities are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify TRS, PSF, ERS, UT, TPHETB and VLB if the borrowers fail to return the securities.

TRS, PSF, ERS, UT, TPHETB and VLB loans are terminable at will. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. The overall securities lending activity as of Aug. 31, 2016, is summarized in the table below.

Securities Lending Activity Summary

August 31, 2016 (Amounts in Thousands)

Entity	Fair Value of Securities on Loan	Non-Cash Collateral*	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value
TRS	$ 18,303,012	$ 615,404	$ 18,116,023	$ 18,128,073	$ 12,050
ERS	180,916		184,987	184,998	11
PSF	1,992,332	642,994	1,406,541	1,362,217	(44,324)
UT*,**	849,602	143,898	729,335	729,335	
VLB**	30,930		28,223	28,223	
TPHETB**	32,647		33,423	33,423	
Total	$ 21,389,439	$ 1,402,296	$ 20,498,532	$ 20,466,269	$ (32,263)

* Non-cash collateral received for securities lending activities is not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

** UT, VLB and TPHETB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2016.

Investment Derivative Instruments

Derivatives are financial instruments (securities or contracts) whose value is linked to or "derived" from changes in interest rates, currency rates and stock and commodity prices. These securities or contracts serve as components of the investment strategies of certain state agencies, public employee retirement systems and institutions of higher education. Those investment strategies are utilized to manage and reduce the risk of the overall investment portfolio. Investment derivative levels and types are monitored to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

All investment derivative instruments are reported at fair value on the statement of net position and the statement of fiduciary net position. The changes in the fair value of investment derivative instruments are reported as investment revenue in the operating statements. As of Aug. 31, 2016, TRS, PSF, UT, Texas A&M University System (A&M), Texas Tech University System (TTU) and VLB held investment derivatives (swaps, options, futures and forwards).

Forward foreign currency exchange contracts are used for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. The contracts are in the currency native to the security transactions for settlement date and are marked-to-market daily with the change in market value recorded as an unrealized gain or loss. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to

meet the terms of their contracts and unanticipated movements in currency exchange rates.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price and date. Futures contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase or decrease of market exposure to various asset classes. Upon entering into a futures contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are marked-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures. Accordingly, the amount of risk posed by the nonperformance of counterparties to futures contracts is minimal. Risks due to movements in the value of the futures contracts and the inability to close out futures contracts due to a non-liquid secondary market remain.

Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option.

Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price or rate at which the underlying financial instrument of the swap is valued at the settlement date. Swaps are used to manage risk and enhance returns. As of Aug. 31, 2016, swap investments were interest rate, credit default, commodity, equity and total return swaps.

UT and VLB invested in pay-variable, receive-variable interest rate swap agreements that are reported as investment derivatives because they are ineffective hedges.

Foreign Currency Risk: TRS, UT and A&M have exposure to investment foreign currency risk in swaps, options, futures and forwards derivative investments. As of Aug. 31, 2016, derivative investments exposed to foreign currency risk are presented in the table below.

Derivative Investments Exposed to Foreign Currency Risk

August 31, 2016 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds			
	Swaps	Options	Futures	Forwards	Swaps	Options	Futures	Forwards
Australian Dollar	$ (40)	$ (11)	$ 3	$ (331)	$ 2,877	$	$ 16,030	$ (1,401)
Brazilian Real		(4,805)		(750)			(1,629)	1,147
British Pound	42,434	(197)		6,060	8		11,253	13,399
Canadian Dollar	14,310		(1)	15			7,301	(1,995)
Chilean Peso				282				(70)
Chinese Yuan Renminbi				(44)				(108)
Chinese Yuan (Offshore)				7,499				(421)
Colombian Peso				(151)				689
Czech Koruna				22				
Danish Krone				43				36
Euro	57,168	(128)	(27)	1,072	1,793		7,135	(6,521)
Hong Kong Dollar				3	126		(409)	(15)
Hungarian Forint								(48)
Indian Rupee				132				586
Indonesian Rupiah								(23)
Israeli New Shekel				9				(106)
Japanese Yen	(25,430)	(7)	(2)	(23,746)	(384)		2,584	(5,512)
Malaysian Ringgit				19				(274)
Mexican Peso	(69)			(263)			262	(328)
New Zealand Dollar				(977)				1,867
Norwegian Kroner				357				8,260
Philippine Peso								(87)
Polish Zloty				22				100
Russian Ruble				157				(393)
Singapore Dollar				2,142			(311)	(205)
South African Rand				(314)			(593)	(2,191)
South Korean Won				522			1,625	(1,927)
Swedish Krona	58			(455)			63	167
Swiss Franc				(34)	58		(60)	84
Taiwan Dollar								(481)
Thai Baht				(133)		750	319	(91)
Turkish Lira								486
Total	$ 88,431	$ (5,148)	$ (27)	$ (8,842)	$ 4,478	$ 750	$ 43,570	$ 4,624

Credit Risk: TRS and UT instituted policies to mitigate counterparty credit risk for investment derivatives by having master netting agreements and collateral posting arrangements. TRS and UT negotiated thresholds or limits for each counterparty above which collateral must be posted.

TRS' investment policy limits the net market value of all over-the-counter derivative positions, less collateral posted, to an amount not exceeding $500 million for any individual counterparty.

UT requires collateral to be posted on a daily basis by the counterparty to cover exposure to a counterparty above the limits set in place by the master netting agreement. Collateral posted by counterparties is held by UT in one of its accounts at their custodian bank.

The aggregate fair value of investment derivative instruments in asset positions as of Aug. 31, 2016, was $305.5 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than BBB using the Standard & Poor's

rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2016, if all counterparties failed to perform as contracted. This maximum exposure is reduced by $47.8 million of collateral held and by $280.2 million in liabilities included in netting arrangements with those counterparties, resulting in a negative $22.5 million net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, UT and VLB are exposed to interest rate risk on swap transactions. Investments in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 131.25 percent of Securities Industry and Financial Markets Association (SIFMA) and receipt of 82.04 to 103 percent of one month to three month London Interbank Offered Rate (LIBOR). Investments in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rates (Euro Interbank Offered Rate (EURIBOR), LIBOR, Mexican Interbank Rate, Bank Bill Swap Rate or Canadian Dollar Offered Rate) and receipt of 0.00 to 5.61 percent. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates (EURIBOR, LIBOR, Mexican Interbank Rate, Johannesburg Interbank Agreed Rate or Stockholm Interbank Offered Rate) and payment of 0.00 to 8.50 percent. As of Aug. 31, 2016, the investment maturities for the state's swap contracts exposed to interest rate risk are presented in the table below.

Derivative Investments Exposed to Interest Rate Risk

August 31, 2016 (Amounts in Thousands)

		Investment Maturities (in years)				
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**11-15**	**More than 15**
Interest Rate Swaps	$(6,562)	$10,998	$(2,119)	$(3,405)	$2,397	$(14,433)

Investment Funds

Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. Risks associated with these investments include investment manager risk, liquidity risk, market risk and leverage risk. Investment manager risk is substantially dependent upon key investment managers; therefore, the loss of those individuals may adversely impact the return on investment. Also, some investment funds are not subject to regulatory controls. Liquidity may be limited due to imposed lock-up periods, with penalties to redeem units or restricting redemption of shares until a certain period of time has elapsed. Investment funds may employ sophisticated investment strategies using leverage, which could result in the loss of invested capital. As of Aug, 31, 2016, the fair value of various investment funds was $93.7 billion.

Note 4

Short-Term Debt

During fiscal 2016, Texas Department of Transportation issued flexible rate revolving notes under its short-term borrowing program for $400 million to cover cash management operations in the state highway fund, and $750 million matured.

Texas Workforce Commission received temporary transfers (loans) for $165.6 million from the Comptroller's office to avoid interest liabilities related to the Cash Management Improvement Act (CMIA). The loans were repaid in full during fiscal 2016.

Texas Tech University System issued commercial paper notes for $13 million to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds, and $5.2 million matured.

The University of North Texas System issued commercial paper notes for $20.3 million to finance project costs of eligible projects and to refinance, renew or refund commercial paper notes, prior encumbered obligations and parity debt, including interest, and $2 million matured.

Texas State University System issued commercial paper notes for $2.6 million to finance project costs of eligible projects and to refinance, renew, or refund commercial paper notes, prior encumbered obligations and parity debt, including interest, and $2.4 million matured.

The University of Houston System issued commercial paper notes for $32.1 million to finance various capital projects and $45.9 million matured.

The University of Texas System issued commercial paper notes for $928.8 million to provide interim financing for capital improvements and to finance equipment purchases, and $1.6 billion matured.

In addition, for fiscal 2016, the state Comptroller announced the state did not issue state of Texas Tax and Revenue Anticipation Notes.

Short-term debt activity for the fiscal year ended Aug. 31, 2016, is presented below.

Short-Term Debt

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Beginning Balance 9/1/15	Issued	Redeemed	Ending Balance 8/31/16
Commercial Paper	$ 1,598,243	$ 996,844	$ 1,637,928	$ 957,159
Flexible Rate Revolving Notes	350,000	400,000	750,000	
General Revenue Advances		165,642	165,642	
	$ 1,948,243	$ 1,562,486	$ 2,553,570	$ 957,159

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2016, is presented in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Balance 9/1/15	Restatements /Adjustments*	Additions**	Reductions	Balance 8/31/16	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	$ 116,260	$	$ 42,922	$ 40,336	$ 118,846	$ 41,895	$ 76,951
Capital Lease Obligations	29,757	(4)	1,280	3,989	27,044	4,023	23,021
Employees' Compensable Leave	838,030	17,277	940,835	939,566	856,576	572,498	284,078
Notes and Loans Payable	1,547,503		305,718	430,314	1,422,907	207,237	1,215,670
General Obligation Bonds Payable	14,177,418	241,445	2,533,645	1,892,700	15,059,808	557,999	14,501,809
Revenue Bonds Payable	4,490,215	(35,246)		164,585	4,290,384	199,851	4,090,533
Pollution Remediation Obligation	310,302		36,036	85,271	261,067	39,661	221,406
Governmental Activities Long-Term Liabilities	$ 21,509,485	$ 223,472	$ 3,860,436	$ 3,556,761	$ 22,036,632	$ 1,623,164	$ 20,413,468
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	$ 138,912	$	$ 1,164,473	$ 1,146,919	$ 156,466	$ 110,918	$ 45,548
Capital Lease Obligations	60,773		19,935	10,251	70,457	13,373	57,084
Employees' Compensable Leave	817,425		350,279	308,189	859,515	442,114	417,401
Notes and Loans Payable	1,243,477	(12,101)	1,339,409	375,538	2,195,247	102,409	2,092,838
General Obligation Bonds Payable	3,954,563	30,397	627,917	283,062	4,329,815	225,545	4,104,270
Revenue Bonds Payable	21,466,229	203,988	3,825,434	2,084,954	23,410,697	2,271,228	21,139,469
Pollution Remediation Obligation	1,650		1,023	1,650	1,023		1,023
Liabilities Payable From Restricted Assets	3,063,729		143,491	281,333	2,925,887	490,256	2,435,631
Business-Type Activities Long-Term Liabilities	$ 30,746,758	$ 222,284	$ 7,471,961	$ 4,491,896	$ 33,949,107	$ 3,655,843	$ 30,293,264
COMPONENT UNITS							
Capital Lease Obligations	$ 45	$	$ 181	$ 51	$ 175	$ 44	$ 131
Employees' Compensable Leave	2,829		764	955	2,638	1,543	1,095
Notes and Loans Payable	23,914			7,826	16,088	6,709	9,379
Revenue Bonds Payable	114,666	(1,290)		31,718	81,658	4,713	76,945
Component Units Long-Term Liabilities	$ 141,454	$ (1,290)	$ 945	$ 40,550	$ 100,559	$ 13,009	$ 87,550

* Includes current year amortization of premiums and discounts.
** Includes current year amortization of accretion.

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings, self-insurance and workers' compensation claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above $50 thousand or numerous separate claims from the same individual or entity that in total exceed $50 thousand must be approved by the Legislature before being paid. Claims are paid from one or more of approximately 50 governmental funds. Workers' compensation claims are usually paid from the same funding source(s) from which the employees' salary or wage compensation was paid.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2017	$ 207,237	$ 19,034	$ 226,271
2018	202,350	19,719	222,069
2019	202,960	18,394	221,354
2020	199,187	17,103	216,290
2021	171,865	15,738	187,603
2022 - 2026	484,473	61,553	546,026
2027 - 2031	87,886	36,728	124,614
2032 - 2036	68,657	12,646	81,303
2037 - 2041	8,670	52	8,722
Total Requirements	1,633,285	200,967	1,834,252
Unamortized Accretion	(210,378)		(210,378)
Total Requirements	$ 1,422,907	$ 200,967	$ 1,623,874

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2017	$ 102,409	$ 51,584	$ 153,993
2018	49,703	38,006	87,709
2019	46,066	37,177	83,243
2020	21,689	36,603	58,292
2021	21,707	62,731	84,438
2022 - 2026	137,564	303,520	441,084
2027 - 2031	141,672	290,062	431,734
2032 - 2036	169,279	271,768	441,047
2037 - 2041	291,112	246,330	537,442
2042 - 2046	551,955	183,866	735,821
2047 - 2051	662,091	54,395	716,486
Total Requirements	$ 2,195,247	$ 1,576,042	$ 3,771,289

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2017	$ 6,709	$ 106	$ 6,815
2018	3,039	96	3,135
2019	1,053	79	1,132
2020	2,055	74	2,129
2021	1,911	64	1,975
2022 - 2026	804	178	982
2027 - 2031	517	2	519
Total Requirements	$ 16,088	$ 599	$ 16,687

Capital lease obligations are described in detail in Note 8.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from, the same funding source(s) from which the employees' salary or wage compensation was paid.

Notes and loans payable consist of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt; and the funding of agency specific missions such as economic development projects and pest eradication programs. The Texas Department of Transportation (TxDOT) entered into pass-through toll agreements with local entities as a means of financing state highway capital improvements and maintenance. In fiscal 2016, TxDOT recognized an additional $30 million as a long-term liability for pass-through toll payables related to highway projects constructed under pass-through financing agreements. At Aug. 31, 2016, there was a pass-through toll payable of $1.1 billion. See Note 15 for additional details.

At Aug. 31, 2016, TxDOT included a Bond Anticipation Note (BAN) with an outstanding amount totaling $733.5 million and an unamortized premium outstanding of $12.1 million as notes and loans payable. On Dec. 15, 2016, the BAN was refunded through the issuance of a long-term secured loan with Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). Interest associated with this refunding totaled $700 million and is included in the debt service requirements for business-type activities table. The unamortized premium associated with the BAN was not refunded and is included as amounts due within one year.

At Aug. 31, 2016, the University of Texas System (UT) included $1 billion in commercial paper outstanding as notes and loans payable as they were refunded through the issuance of long-term bonds in September 2016. Interest associated with this refinancing totaled $776.9 million and is included in the debt service requirements for business-type activities table. $11.2 million in principal and $28.1 million in interest is included as amounts due within one year.

Debt service requirements for notes and loans payable in the long-term liabilities are presented in the tables on the previous page.

General obligation bonds and revenue bonds are described in detail in Note 6.

Long-term liabilities associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

Pollution Remediation Obligations

Pollution remediation obligations are recognized in the financial statements for existing pollution sites after the occurrence of one or more of the following events:

- The pollution creates an imminent endangerment to public health or the environment.
- The state is in violation of a pollution prevention-related permit or license.
- The state is named as a potentially responsible party by a regulator.
- The state is named in a lawsuit that compels it to participate in remediation.
- The state has commenced or legally obligated itself to begin cleanup activities.

Under applicable accounting standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets.

Federal Regulatory Cleanup Requirements: Pollution remediation obligations are associated with projects initiated under federal regulatory requirements. Applicable federal laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund), the National Emissions Standards for Hazardous Air Pollutants and U.S. Environmental Protection Agency Class V Wells regulations.

The Superfund obligation estimates are based on budgeted projects to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. Other obligations are calculated based on contractor estimates or historical costs as applicable.

Federal reimbursements are expected to offset a portion of these expected costs. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

State Regulatory Cleanup Requirements: Other pollution remediation obligations are associated with cleanups required under state of Texas law. The Texas Commission on Environmental Quality (TCEQ) operates as a regulatory agency to ensure cleanups are conducted within applicable state laws and regulations contained in the Texas Administrative Code, Title 30; Texas Water Code; Texas Health and Safety Code; Texas Occupations Code; and Texas Natural Resources Code.

Major Remediation Activity: TCEQ oversees the cleanup of leaking petroleum storage tanks (LPST). Cleanup costs are paid by the owners' environmental liability insurance or other financial assurance mechanisms or from their own funds. If the responsible party is unknown, unwilling or financially unable to do the work, state and federal funds are used to pay for the corrective actions. Revenue is generated from a fee on

the delivery of petroleum products removed from bulk storage facilities. State statutes allow cost recovery from the current owner or any previous responsible owner, however, to date this has not been necessary.

TCEQ calculates expected outlays related to this pollution remediation by establishing the average cost of cleanup and multiplying that cost by the number of active sites, plus direct salaries and benefits for the duration of the cleanup. This methodology is based upon historical experience in estimating these cleanups. At Aug. 31, 2016, there were 325 active state lead sites, with a total estimated pollution remediation obligation of $73.2 million. The amount of the estimated pollution remediation assumes that there will be no major increases in the cost of providing these cleanup services.

The TCEQ Superfund Section includes the State Superfund, Federal Superfund, Superfund Site Discovery and Assessment (SSDAP) and the Preliminary Assessment/Site Inspection (PA/SI) Programs. On behalf of TCEQ, the section identifies, ranks, and addresses sites contaminated with hazardous substances, which no parties are willing to address through a permit, corrective action, voluntary cleanup or enforcement program. These sites are identified through referral from internal and external groups such as TCEQ Enforcement, TCEQ Regional Offices, TCEQ Water Supply Division, public complaints and the United States Environmental Protection Agency (EPA).

Site estimates may change drastically from one year to another as the investigations progress and a better understanding of site conditions is obtained. The estimate of liabilities is limited to sites that have been, or are, being assessed and ranked for the Superfund program. Cost recovery activities during fiscal 2016 resulted in collections of $665 thousand.

At the end of fiscal 2016, Texas had 64 sites with pollution remediation obligations in the state and federal Superfund programs and one site that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2016, is $134.4 million.

TCEQ is responsible for collecting fees for a remediation fund designed to help pay for the cleanup of contaminated dry cleaner sites. The fees are generated from the annual registration of facilities and drop stations, as well as from the sale of perchloroethylene and other dry cleaning solvents. TCEQ receives applications for remediation, and then ranks and prioritizes them for corrective action. Legislation in 2007 established requirements for property owners and preceding property owners who wish to claim benefits from the remediation fund, and authorized a lien against property owners and preceding property owners who fail to pay registration fees due during corrective action. No additional cost recovery is allowed by statute.

The pollution remediation obligation is measured by the national average cleanup cost, as calculated by the State Coalition for Remediation of Drycleaners. Direct salary and benefit costs are added to the national average and the total cost is multiplied by the number of active sites. The amount of the estimated pollution remediation assumes that there will be no major increases in the cost of providing these cleanup services. At Aug. 31, 2016, there were 195 active sites, with a total estimated pollution remediation obligation of $43 million.

The Railroad Commission of Texas (Commission) currently has two areas of remediation: abandoned oil and gas wells and mines. Under Texas Natural Resource Code, Section 89.043, the Commission may plug abandoned wells if the wells will cause or are likely to cause a serious threat of pollution or injury to the public health. The Commission has 38 active well plugging projects as of Aug. 31, 2016, with an estimated cost of $3 million.

Under the Texas Surface Coal Mining and Reclamation Act, the Commission administers funds from the U.S. Department of the Interior for the Abandoned

Mine Land Reclamation Program. The Commission has one grading project as of Aug. 31, 2016, with an estimated cost of $262 thousand.

The Commission enters into contracts with third parties for abandoned site remediation and abandoned well plugging. These contracts are used to estimate the amount of the plugging and pollution remediation obligation. Cost recoveries from the responsible parties are deposited into the oil and gas regulation and cleanup fund.

TxDOT is responsible for the cleanup and remediation of several polluted sites. Regulatory requirements established by federal and state law obligate TxDOT to perform these pollution remediation activities. Historical cost averages were used to calculate the estimated pollution remediation obligation liabilities. The areas of remediation include compliance with asbestos regulations, lead based paint regulations, compliance with Federal Safe Drinking Water Act, and compliance with state LPST cleanup at an estimated cost of $6.1 million.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 434 bond issues outstanding as of Aug. 31, 2016. Scheduled debt service payments from the general revenue fund for fiscal 2016 totaled $656.2 million.

Information on Bond Issuances

August 31, 2016

Description of Issue	Bond Issues Outstanding Number	Bond Issues Outstanding Amount Issued (in Thousands)	Range of Interest Rates Lowest	Range of Interest Rates Highest	Maturities First Year	Maturities Last Year	First Call Date
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	75	$ 17,797,305	0.1800	6.0700	2005	2046	05/18/2005
Revenue Bonds	14	5,347,020	1.0000	5.3300	2008	2034	10/01/2016
Governmental Activities Total	89	23,144,325					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	73	5,151,385	0.2250	5.2500	1996	2047	10/31/1995
Revenue Bonds	263	28,318,429	0.1200	15.0000	1999	2054	05/04/1995
Business-Type Activities Total	336	33,469,814					
COMPONENT UNITS							
Revenue Bonds	9	389,798	2.7000	6.1000	2006	2042	12/01/2007
Total	434	$ 57,003,937					

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2017	$ 459,175	$ 627,848	$ 1,087,023	$ 166,300	$ 184,831	$ 351,131
2018	466,665	611,844	1,078,509	168,695	175,940	344,635
2019	487,480	590,933	1,078,413	166,360	168,470	334,830
2020	460,485	569,667	1,030,152	169,710	160,548	330,258
2021	476,685	548,299	1,024,984	175,605	152,032	327,637
2022 – 2026	2,559,520	2,386,770	4,946,290	1,241,950	598,915	1,840,865
2027 – 2031	2,778,070	1,748,029	4,526,099	1,445,115	274,019	1,719,134
2032 – 2036	2,715,960	1,120,819	3,836,779	500,750	43,339	544,089
2037 – 2041	2,379,025	483,373	2,862,398			
2042 – 2046	954,895	90,859	1,045,754			
	13,737,960 *	8,778,441	22,516,401	4,034,485 *	1,758,094	5,792,579
Premium	1,322,233		1,322,233	255,899		255,899
Discount	(385)		(385)			
Total	$ 15,059,808	$ 8,778,441	$ 23,838,249	$ 4,290,384	$ 1,758,094	$ 6,048,478

BUSINESS-TYPE ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2017	$ 219,350	$ 91,642	$ 310,992	$ 2,149,824	$ 907,666	$ 3,057,490
2018	225,105	87,565	312,670	879,452	866,582	1,746,034
2019	242,540	83,283	325,823	751,712	832,748	1,584,460
2020	242,145	78,622	320,767	764,430	801,843	1,566,273
2021	233,900	74,222	308,122	795,626	773,845	1,569,471
2022 – 2026	1,122,990	302,755	1,425,745	4,035,785	3,435,898	7,471,683
2027 – 2031	788,025	197,875	985,900	3,366,416	2,716,707	6,083,123
2032 – 2036	563,740	123,624	687,364	3,352,688	2,010,284	5,362,972
2037 – 2041	429,250	60,651	489,901	3,469,614	1,268,549	4,738,163
2042 – 2046	162,160	10,978	173,138	1,696,433	621,592	2,318,025
2047 – 2051	1,610	69	1,679	753,960	328,028	1,081,988
2052 – 2056				830,543	48,568	879,111
	4,230,815 *	1,111,286	5,342,101	22,846,483 *	14,612,310	37,458,793
Accretion				(614,015)		(614,015)
Premium	99,000		99,000	1,196,537		1,196,537
Discount				(18,308)		(18,308)
Total	$ 4,329,815	$ 1,111,286	$ 5,441,101	$ 23,410,697	$ 14,612,310	$ 38,023,007

COMPONENT UNITS	Revenue Bonds		
Year	Principal	Interest	Total
2017	$ 4,713	$ 2,408	$ 7,121
2018	1,691	2,952	4,643
2019	1,771	2,874	4,645
2020	1,858	2,789	4,647
2021	1,942	2,699	4,641
2022 – 2026	11,508	11,887	23,395
2027 – 2031	15,116	8,593	23,709
2032 – 2036	20,117	4,912	25,029
2037 – 2041	15,718	1,247	16,965
2042 – 2046	1,170	16	1,186
	75,604	40,377	115,981
Premium	6,054		6,054
Total	$ 81,658	$ 40,377	$ 122,035

* Includes accretion adjustments on deep discount bonds.

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Bonds Outstanding 9/1/15	Adjustments *	Bonds Issued**	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/16	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	$ 14,177,418	$ 241,445	$ 2,533,645	$ 447,550	$ 1,445,150	$ 15,059,808	$ 557,999
Revenue Bonds	4,490,215	(35,246)		164,585		$ 4,290,384	199,851
Governmental Activities Total	18,667,633	206,199	2,533,645	612,135	1,445,150	19,350,192	757,850
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,954,563	30,397	627,917	190,357	92,705	$ 4,329,815	225,545
Revenue Bonds	21,466,229	203,988	3,825,434	904,571	1,180,383	$ 23,410,697	2,271,228
Business-Type Activities Total	25,420,792	234,385	4,453,351	1,094,928	1,273,088	27,740,512	2,496,773
COMPONENT UNITS							
Revenue Bonds	114,666	(1,290)		31,718		$ 81,658	4,713
	114,666	(1,290)	0	31,718	0	81,658	4,713
Total	$ 44,203,091	$ 439,294	$ 6,986,996	$ 1,738,781	$ 2,718,238	$ 47,172,362	$ 3,259,336

* Includes current year amortization of premiums and discounts.
** Includes current year amortization of accretion.

General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board, the Constitutional Appropriation Bonds and the Texas Transportation Commission Highway Improvement Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees, sporting goods sales tax revenue and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions of higher education and to fund cancer research. The Texas Public Finance Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water conservation and development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts, earnings on temporary investments and general revenues.

The **Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The **Texas Department of Transportation** (TxDOT), prior to Jan 1, 2015, through the Texas mobility fund, issued general obligation bonds to pay or reimburse the state highway fund for the payment of part of the costs of constructing, reconstructing, acquiring and expanding state highways. In addition, the bond proceeds provided funds for participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. After Jan. 1, 2015, TxDOT may only issue debt to refund existing debt in certain circumstances. Sources of pledged revenue for the Texas mobility fund include the "United We Stand" license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees. Debt service for highway improvement bonds is provided by the state's general revenue.

Constitutional Appropriation Bonds are issued in support of the construction programs of institutions of higher education not benefiting from the permanent university fund, which is dedicated to the University of Texas System and Texas A&M University System. Debt service payments on bonds issued are limited to the $131.3 million in general revenue funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, promote domestic business development, provide loans to finance the commercialization of new and improved products and processes, and provide loans to defense-related communities for economic development projects. Debt service payments are funded from revenues of the Economic Development and Tourism Office, primarily from the repayment of loans and the disposition of debt instruments.

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2016, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, authorized but unissued, are presented in the table below.

General Obligation Bonds Authorized But Unissued
(Amounts in Thousands)

SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	$ 49,750
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,208,929
Water Development Bonds	5,998,014
College Student Loan Bonds	1,214,895
Texas Military Value Revolving Loan Fund	200,405
Total	9,146,993
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	2,037,487
Transportation Commission Transportation Bonds	697,008
Water Development Bonds - Economically Distressed Areas Program	53,492
Total	2,952,827
Total General Obligation Bonds	$ 12,099,820

Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

Self-Supporting

The **Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make land and home mortgage loans to veterans. The bonds are limited and special revenue obligations payable solely from the income, revenues, receipts and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by or the construction of rental housing for families with very low to moderate incomes and persons with special needs. Loan payments provide the revenues for debt service payments. The agency also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and to carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the Texas water resources fund (inactive) and the state water pollution control revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest repayments from political subdivision loans are pledged for debt service requirements of the bonds.

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets as of Aug. 31, 2016, excluding real estate, was $15.2 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is presented in the table below.

Permanent University Fund Bonds
(Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$ 3,034,155	$ 1,990,155	$ 1,044,000
Texas A&M University System	1,517,078	915,375	601,703
Total	$ 4,551,233	$ 2,905,530	$ 1,645,703

Miscellaneous College and University Revenue Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the pledged revenue of the respective institutions and are not an obligation of the state of Texas.

The **Texas Department of Transportation** issues revenue bonds to finance state highway improvement projects. Pledged revenues include all revenues deposited to the credit of the state highway fund, including dedicated registration fees, dedicated taxes, dedicated federal revenues, amounts collected or received pursuant to other state highway fund revenue laws and any interest or earnings from the investment of these funds.

The **Texas Transportation Commission** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater city of Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate.

The **Texas Workforce Commission** issued revenue bonds to fund the workers' compensation insurance fund. The bond obligations are secured by a special obligation assessment imposed on Texas employers.

Not Self-Supporting

The following revenue bonds are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

The **Texas Military Department**, previously named the Adjutant General's Department, assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental

and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Texas Military Department upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Texas Military Department. As of Aug. 31, 2016, the bond obligations were still outstanding.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and to construct, equip or renovate buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, collected primarily from occupant-agency rentals.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments, funded by state appropriations, made by the Texas Parks and Wildlife Department to the Texas Public Finance Authority.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds. The table below provides information on pledged revenue and pledged future revenue for the state's revenue bonds.

Build America Bonds

The American Recovery and Reinvestment Act (ARRA) of 2009 was implemented in February 2009. As part of this federal legislation, a new bond program called Build America Bonds (BABs) was created. Authority to issue BABs expired on Dec. 31, 2010.

The Texas Department of Transportation, the University of Texas System, the Texas Public Finance Authority and the University of Houston System had $3.5 billion, $1.6 billion, $181.8 million and $80 million of direct payment BABs outstanding, respectively, as of Aug. 31, 2016.

Under the Budget Control Act of 2011, across-the-board sequestration took effect on March 1, 2013. This resulted in the 35 percent federal subsidy for BABs interest payments being reduced by the applicable federal sequestration reduction rate.

Variable Rate Bonds

Seven state agencies had a total of 85 variable rate bond issues with outstanding balances as of Aug. 31, 2016. Most of the issues' interest rates reset every seven days. The remaining issues' interest rates reset daily or monthly. The potential volatility for related debt service increases with these interest rate reset provisions.

Pledged Future Revenue

(Amounts in Thousands)

	General Obligation Bonds	Revenue Bonds		
	Governmental Activities	Governmental Activities	Business-Type Activities	Component Units
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	$ 11,112,796	$ 5,783,564	$ 35,335,708	$ 115,981
Current Year Pledged Revenue	449,381	8,300,451	17,241,074	82,195
Current Year Principal and Interest Paid	321,493	343,749	1,824,035	35,762
Term of Commitment Fiscal Year Ending August 31,	2045	2034	2054	2042
Percentage of Revenue Pledged	100%	100%	90%	100%

Demand Bonds

The Office of the Governor, the Veterans Land Board, the Texas Department of Housing and Community Affairs, the Texas Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds as of Aug. 31, 2016.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under a letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2016, there were no purchased bonds held by liquidity providers under the terms of the various agreements. Details are presented in the table below and on the following page.

Demand Bonds

August 31, 2016

	Number of				Principal Balance Outstanding (In Thousands)
	Demand Bond Issues	Standby Purchase Agreements	Letters of Credit	Other	
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Department of Transportation	1	2 (a)			$ 150,000
Office of the Governor	2		2 (c)		45,000
Total	3	2	2	0	195,000
Revenue Bonds					
Texas Department of Transportation	1	1 (a)			100,000
Total	1	1	0	0	100,000
Governmental Activities Total	4	3	2	0	$ 295,000
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	4	4 (a)			$ 446,610
Total	4	4	0	0	446,610
Revenue Bonds					
University of Texas System	3			3 (b)	1,207,675
Texas Department of Housing and Community Affairs	6	6 (a)			141,560
University of Houston System	1			1 (b)	1,895
Total	10	6	0	4	1,351,130
Business-Type Activities Total	14	10	0	4	$ 1,797,740

(a) – See Demand Bonds - Standby Purchase Agreements table.
(b) – In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.
(c) – In the event redeemed bonds are not remarketed, a standby letter of credit with U.S. Bank National Association will be used until remarketed.

Demand Bond – Standby Purchase Agreements

August 31, 2016

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0900%	11/07/16
Bank of Tokyo-Mitsubishi UFJ	1	0.3500%	09/04/18
California Public Employees Retirement System	1	0.1500%	12/13/16
Landesbank Hessen-Thuringen Girozentrale	1	0.2800%	01/20/21
Landesbank Hessen-Thuringen Girozentrale	1	0.3200%	12/31/19
Mizuho Bank, LTD.	1	0.3400%	07/19/19
State Street Bank and Trust Company	1	0.1500%	12/13/16
Texas Comptroller of Public Accounts*	6	0.1200%	08/31/17
Total	13		

* Treasury Operations Division of the Texas Comptroller of Public Accounts

Takeout agreements are used by the Texas Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that were not remarketed within the prescribed time constraints. The table below provides the estimated impact of such an event.

Demand Bonds – Takeout Agreement Provisions

August 31, 2016

	Estimated Debt Service (In Thousands)		Rate	Basis
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds				
Texas Department of Transportation				
Texas Mobility Fund Bonds				
Series 2006B	170,085	(a)	8.50%	1% + the greater of: 3.0% + Daily Fed Fds Rate or Bank prime rate + 2% or 7.5%
Revenue Bonds				
Texas Department of Transportation				
State Highway Fund Revenue Bonds				
Series 2006B	109,281	(b)	5.31%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	$ 279,366			

(a) – Replacement debt is subject to quarterly payments over three years starting the first day of the first month of that period.
(b) – Replacement debt is subject to semi-annual payments over three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

The table to the right presents early debt extinguishments in fiscal 2016. The source of funds used for the extinguishments included loan repayments and other available funds.

Refunding

The table below summarizes bonds refunded during fiscal 2016 to lower interest rates or to restructure debt service requirements for cash management purposes.

Early Extinguished Debt Issues

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 8,735
Veterans Land Board	5,000
Revenue Bonds	
Texas Department of Housing and Community Affairs	183,168
Texas Workforce Commission	134,295
University of Houston System	7,535
University of North Texas System	4,535
Business-Type Activities Total	$ 343,268

Refunding Issues

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue*	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Department of Transportation	Advanced Refunding	$ 911,360	$ 967,210	$ 128,548	$ 83,442
Texas Department of Transportation	Current Refunding	254,105	281,025	60,065	31,994
Texas Public Finance Authority	Advanced Refunding	157,520	161,705	17,959	14,746
Texas Water Development Board	Current Refunding	30,125	35,210	6,613	5,927
Governmental Activities Total		1,353,110	1,445,150	213,185	136,109
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	74,845	78,970	15,910	13,730
Revenue Bonds					
University of Texas System	Advanced Refunding	80,790	87,145	8,355	7,597
Texas A&M University System	Advanced Refunding	533,900	535,190	76,414	64,015
University of Houston System	Advanced Refunding	63,605	67,525	11,368	9,431
University of North Texas System	Current Refunding	45,865	45,605	8,903	4,470
Texas Department of Housing and Community Affairs	Current Refunding	93,560	94,945	(9,599)	132
Texas State Technical College	Advanced Refunding	19,330	20,440	2,106	1,341
Business-Type Activities Total		911,895	929,820	113,457	100,716
Total		$ 2,265,005	$ 2,374,970	$ 326,642	$ 236,825

* Other funds totaling approximately $32.1 million were used to refund/defease additional bonds.

Defeased Bonds

Texas defeases various bond issues by placing funds in irrevocable trusts with external financial institutions to provide for all future debt service payments on the old bonds. As of Aug. 31, 2016, the amounts of defeased bonds, at par, that remain outstanding for all bond issuers are presented in the table on the following page. Also included are various bond issues defeased by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company). Funds placed in the Trust Company to defease $304.2 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Department of Transportation	$1,807,110
Texas Public Finance Authority	304,155
Revenue Bonds	
Texas Department of Transportation	837,635
Governmental Activities Total	2,948,900
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	38,610
Veterans Land Board	15,500
Revenue Bonds	
University of Texas System	373,543
Texas A&M University System	535,190
Texas Department of Transportation	96,962
Texas State University System	82,260
University of Houston System	67,525
Texas Department of Housing and Community Affairs	8,850
University of North Texas System	4,535
Midwestern State University	18,195
Texas State Technical College	6,030
Business-Type Activities Total	1,247,200
Total	$4,196,100

Conduit Debt

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under Texas Government Code, Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable-rate or fixed-rate financing to nonprofit borrowers/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. TSAHC may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. TSAHC finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. TSAHC, the state and any political subdivision thereof are not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2016, there were 13 series of multifamily housing revenue bonds outstanding with an aggregate $166 million principal amount payable.

The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of the state, issued four series of bonds in the aggregate amount of $1.6 billion that remains outstanding as of Aug. 31, 2016. The proceeds were loaned to LBJ Infrastructure Group LLC, NTE Mobility Partners LLC, NTE Mobility Partners Segments 3 LLC and Blueridge Transportation Group, LLC to finance the development and expansion of public transportation projects. Debt service is funded from loan and interest repayments from the borrowers. The bonds do not constitute a debt or pledge of the faith and credit of TxPABST, Texas Department of Transportation, or the state of Texas. Remaining bond authority has expired.

Conduit bond debt for the Texas Department of Housing and Community Affairs (multifamily housing bonds) predates the implementation of note disclosure requirements and is reported in the financial statements.

Interest Rate Swaps

Effective interest rate swap agreements are considered hedging derivatives. The aggregate debt service requirements and associated net swap payments are detailed in this note. See Note 7 for additional information on derivatives.

Estimated Debt Service of Swap Payments

Using rates as of Aug. 31, 2016, the debt service requirements of the state's variable-rate and fixed-rate bonds and associated net swap payments were estimated and are presented in the tables to the right and on the following page.

Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2017	$ 171,245	$ 26,370	$ 100,817	$ 298,432
2018	176,655	25,246	95,938	297,839
2019	182,865	23,875	90,812	297,552
2020	175,315	22,467	85,575	283,357
2021	167,575	21,056	80,326	268,957
2022-2026	876,780	85,289	326,603	1,288,672
2027-2031	785,690	54,209	205,655	1,045,554
2032-2036	673,290	28,196	103,764	805,250
2037-2041	407,880	8,135	22,356	438,371
2042-2046	70,270	940	1,840	73,050
2047-2051	280	1	238	519
Total	$ 3,687,845	$ 295,784	$ 1,113,924	$ 5,097,553

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net *	Total
	Principal	Interest		
2017	$ 1,135	$ 200	$ (1,115)	$ 220
2018	1,205	192	(1,112)	285
2019	1,280	183	(1,110)	353
2020	1,365	174	(1,108)	431
2021	1,445	164	(1,105)	504
2022-2026	8,705	654	(5,486)	3,873
2027-2031	11,780	304	(4,876)	7,208
2032-2036	2,665	19	(3,234)	(550)
2037-2041			(550)	(550)
Total	$ 29,580	$ 1,890	$ (19,696)	$ 11,774

* Includes swap payments for swaps that overlay pay-fixed, receive-variable swaps on the same bonds. Principal and interest on these bonds are reported only in the pay-fixed, receive-variable swap table.

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Fixed-Rate Bonds Principal	Fixed-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2017	$	$ 16,612	$ 299	$ 16,911
2018		16,611	304	16,915
2019		16,613	308	16,921
2020	24,740	16,611	312	41,663
2021	25,980	15,375	279	41,634
2022-2026	114,370	55,934	1,140	171,444
2027-2031	104,045	28,795	732	133,572
2032-2036	46,560	8,587	219	55,366
Total	$ 315,695	$ 175,138	$ 3,593	$ 494,426

The tables were prepared assuming current interest rates and swap index relationships remain the same for their terms. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Note 7

Derivative Instruments

Derivatives are financial instruments whose values are derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts, and forward contracts.

Hedging derivatives are entered into to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. The hedging derivatives primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative contracts enable the state to issue bonds at a cost less than what the state would have paid to issue conventional fixed rate debt.

Investment derivatives are entered into with the intention of managing transaction risk, reducing interest cost, or reducing currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivatives.

The state implemented GASB Statement No. 72, *Fair Value Measurement and Application*, for fiscal year 2016. It requires the use of appropriate valuation techniques for which sufficient data are available to measure fair value and that maximize the use of relevant observable inputs while minimizing the use of unobservable inputs. Valuation techniques consistent with the market approach, cost approach, or income approach should be used to measure fair value.

Summary of Derivative Activity

The fair value of effective hedging derivatives is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivatives is reported as deferred outflows of resources and deferred inflows of resources. The state's cumulative derivative activity as of Aug. 31, 2016, is summarized in the table on the following page. The notional amounts are presented in U.S. dollar equivalents.

Derivative Instruments by Entity and Type

Entity/Type of Derivative Instruments

Veterans Land Board (VLB)
Hedging and investment derivatives

Texas Department of Housing and Community Affairs (TDHCA)
Hedging derivatives

University of Texas System (UT)
Hedging and investment derivatives

Texas A&M University System (A&M)
Investment derivatives

Permanent School Fund (PSF) *
Investment derivatives

Teacher Retirement System of Texas (TRS)
Investment derivatives

Texas Tech University System (TTU)
Investment derivatives

Texas Woman's University (TWU) **
Investment derivatives

Midwestern State University (MSU) **
Investment derivatives

Stephen F. Austin State University (SFA) **
Investment derivatives

* The permanent school fund is jointly managed by the Texas Education Agency and the Texas General Land Office, but issues a separately audited stand-alone annual financial report.

** Stephen F. Austin, Midwestern State University, and Texas Woman's University invest funds in Texas A&M University System's investment pool which includes investment derivatives in the form of forward currency exchange contracts.

Summary of Derivative Activity

(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
Investment Derivatives			
Futures	$ 4,082	$	$ 20,268
BUSINESS-TYPE ACTIVITIES			
Cash Flow Hedges			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ (158,071)	$ (702,351) *	$ 3,681,995
Investment Derivatives			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ (14,923)	$ (15,500)	$ 504,840
Pay-Variable Receive-Fixed Interest Rate Swaps	(14,839)	(15,716)	412,561
Basis Swaps	(11,989)	16,182	829,860
Commodity Swaps	(1,031)	(1,031)	17,056
Credit Default Swaps	2,386	1,830	252,798
Currency Swaps	(2,819)	(2,819)	292,798
Equity Swaps	255	255	69,962
Foreign Currency Forward	(8,849)	(8,849)	3,493,240
Futures	(2,266)		989,092
Inflation Swaps			
Options	3,705	1,097	2,177,503
Total Return Swaps	254	(486)	(141,495)
Volatility Swaps	3	3	100
FIDUCIARY ACTIVITIES			
Investment Derivatives			
Credit Default Swaps	$ 13,740	$ 2,864	$ 343,307
Forwards Contracts	(76,767)	4,625	(1,726,437)
Futures	449,969		4,313,621
Options	27,574	5,982	3,693
Pay-Fixed Receive-Variable Interest Rate Swaps	(18,162)	(4,609)	(273,187)
Pay-Variable Receive-Fixed Interest Rate Swaps	4,674	1,854	80,803
Rights	(6,189)	1,185	6,638
Total Return Swaps	13,533	15,867	(160,461)
Warrants	(4,067)	13,735	10,216
DISCRETE COMPONENT UNITS			
Investment Derivatives			
Futures	$ (687)	$	$ 4,991
Options	594	222	2,231
Total Return Swaps	33	(63)	(18,260)

* The entire $702,351 fair value for cash flow hedges is reported as a hedging derivative liability.

Fair Value

Derivative instruments are recorded at fair value. The fair values of the interest rate swaps were determined using a combination of methods.

The University of Texas System (UT) has calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows. UT continued to use the zero-coupon method in determining the fair values of their effective interest rate swaps, but also considered the nonperformance risk of the parties, as required by GASB Statement No. 72. All UT's interest rate swaps are classified in Level 2 of the fair value hierarchy.

The Veteran Land Board's fair value measurements of it swap transactions were calculated by an independent third-party swap advisory consultant using the Income Approach, as described in GASB Statement No. 72. Using observable inputs from interest rate markets and credit default swap prices, the fair value measurements are determined based upon the present value of future implied cash flows. Since the inputs to these

fair value measurements are observable from market data sources, they constitute Level 2 measurements, as described in GASB Statement No. 72.

Several of VLB's effective interest rate swaps contain a provision for the state to be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. With regard to the swap associated with Vet Land Tax Ref Bds Ser 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding), the knock-out is permanent once the option is taken at the discretion of the counterparty. In the remainder of the swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps, and the fair values of the swaps include the effects of the knock-outs.

Texas Department of Housing and Community Affairs (TDHCA) adopted the Income Approach from GASB Statement No. 72 in the fair value measurement of their derivative instruments. Using observable inputs of interest rate markets and municipal bond yields, the fair value measurement is based on the present value of future implied cash flows reflective of nonperformance risk. All TDHCA's derivative instruments are classified in Level 2 of the fair value hierarchy.

Futures contracts are marked-to-market daily and valued at closing market prices on the valuation date. A daily variation margin (the gain or loss) between the daily value of the contracts and the value on the previous day is recorded and settled in cash with the broker the following morning. Options and swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

The fair value of forward currency contracts is estimated by adding the forward points to the corresponding spot rate. These rates are then applied to the outstanding currency exchange to derive a change in valuation.

Hedging Derivatives

The state entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the state's debt programs. Each of the state's interest rate swaps is a contractual agreement entered into between the state and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense. Interest rate swaps determined to be hedging derivatives are designated as cash flow hedges. The specific objectives for each category of effective hedges are summarized below.

Pay-fixed Interest Rate Swaps: The combination of these swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the state's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds.

In fiscal 2016 the state entered into a treasury interest rate lock, a hedging derivative, in order to hedge interest rate exposure and lock in a treasury rate of 3.04% on the issuance of the Series 2016A bonds. The treasury lock was terminated on January 7th, 2016. Therefore, the hedging derivative treasury lock is not included in the derivative tables.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2016, are presented in the tables on the following pages. The variable rates are quoted in terms of a percentage of the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap index rates as noted. Standard & Poor's and Moody's Investor service credit ratings are disclosed for each swap.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Ref Bds Ser '95	$ 8,945	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	10,325	06/01/1999	12/01/2018	Pay 5.112%; receive 68% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	24,640	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	14,400	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,570	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003A	24,775	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	26,035	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2004B	28,625	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	28,215	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	30,370	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006D	31,980	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	32,085	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	33,930	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	33,800	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	34,955	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Bds Ser 2010C	60,870	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Bds Ser 2011A	60,790	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 1M LIBOR
Vet Bds Ser 2011B	62,060	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 1M LIBOR
Vet Bds Ser 2011C	63,235	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	63,540	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	85,720	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Bds Ser 2013A	90,350	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	136,035	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	36,035	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	27,000	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	10,195	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	56,800	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Bds Ser 2014A	140,320	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	30,200	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	15,320	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	28,165	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	11,000	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of 1M LIBOR
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	19,510	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	23,325	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	16,450	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	14,590	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	19,825	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	35,080	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	15,915	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	57,620	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR

* PUF stands for permanent university fund and RFS stands for revenue financing system.

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Ref Bds Ser '95	N/A	$	A- / Baa1
Vet Land Ref Bds Ser '99A	N/A		A- / Baa1
Vet Hsg Fund II Bds Ser 2001A-2	N/A		BBB+/Baa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AA-/Aa2
Vet Land Bds Ser 2002	N/A		BBB+/A3
Vet Hsg Fund II Bds Ser 2002A-2	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2003A	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A		AA-/Aa2
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A		AA-/Aa2
Vet Hsg Fund II Bds Ser 2006A	N/A		AA-/Aa3
Vet Hsg Fund II Bds Ser 2006D	N/A		A+/A1
Vet Hsg Fund II Bds Ser 2007A	N/A		AA/Aa2
Vet Hsg Fund II Bds Ser 2007B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2008A	N/A		AA-/Aa3
Vet Hsg Fund II Bds Ser 2008B	N/A		AA-/Aa2
Vet Bds Ser 2010C	N/A		BBB+/A3
Vet Bds Ser 2011A	N/A		BBB+/Baa2
Vet Bds Ser 2011B	N/A		BBB+/Baa2
Vet Bds Ser 2011C	N/A		AA-/Aa2
Vet Bds Ser 2012A	N/A		AA-/Aa2
Vet Bds Ser 2012B	N/A		AA-/Aa2
Vet Bds Ser 2013A	N/A		AA-/Aa2
Vet Bds Ser 2013B	N/A		AA-/Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%;	2,652	A+ / Aa3
	6M LIBOR > 4.00% and	1,018	
	SIFMA/LIBOR Ratio > 74%		
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%;	935	A+ / Aa3
	SIFMA/5Y ISDA CMS > 71%	1,020	
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	612	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	2,740	A+ / Aa3
Vet Bds Ser 2014A	N/A	N/A	AA-/Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR > 7.00%	4,470	AA-/Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR >= 7.00%	1,442	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	1M LIBOR >= 7.00%	2,594	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	1M LIBOR >= 7.00%;	484	A+ / Aa3
	6M LIBOR > 4.00% and	267	
	SIFMA/LIBOR Ratio > 74%		
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	1M LIBOR >= 7.00%;	1,367	A+ / Aa3
	6M LIBOR > 4.00% and	567	
	SIFMA/LIBOR Ratio > 74%		
Vet Land Tax Ref Bds Ser 2014B-3	1M LIBOR >= 7.00%	2,700	AA-/Aa2
Vet Land Tax Ref Bds Ser 2014B-3	6M LIBOR >= 7.00%	1,542	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	6M LIBOR > 7.00%	2,165	AA-/Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	1M LIBOR >= 7.00%	579	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	1M LIBOR >= 7.00%	1,992	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	6M LIBOR >= 7.00%	1,493	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	1M LIBOR >= 7.00%;	2,355	A+ / Aa3
	6M LIBOR > 4.00% and	1,427	
	SIFMA/LIBOR Ratio > 74%		

* PUF stands for permanent university fund and RFS stands for revenue financing system.

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS (concluded)				
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	$ 34,470	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	21,900	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	13,915	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	20,525	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	15,510	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	17,570	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	18,260	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	28,775	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Bds Ser 2014D	95,385	09/10/2014	06/01/2045	Pay 1.9395%; receive 68% of 1M LIBOR
Vet Bds Ser 2015A	119,595	02/11/2015	06/01/2045	Pay 1.510%; receive 68% of 1M LIBOR
Vet Bds Ser 2015B	123,345	07/22/2015	06/01/2046	Pay 1.771%; receive 68% of 1M LIBOR
Vet Bds Ser 2016	249,705	12/01/2016	12/01/2046	Pay 1.564%; receive 68% of 1M LIBOR
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	33,530	03/01/2014	09/01/2034	Pay 3.67%; receive 65.5% of LIBOR + .20%
2004D Single Family	25,700	01/01/2005	03/01/2035	Pay 3.08%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
2005A Single Family	31,130	08/01/2005	09/01/2036	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
2007A Single Family	38,405	06/05/2007	09/01/2038	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS*				
RFS Bonds 2007B	164,490	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	164,490	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	185,080	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	185,080	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	123,950	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	123,950	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	260,635	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA

* PUF stands for permanent university fund and RFS stands for revenue financing system.

Concluded on the following page

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not expose the state to credit risk. As of Aug. 31, 2016, the state was not exposed to credit

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (concluded)

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS (concluded)			
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	N/A	N/A	AA-/Aa2
Vet Land Tax Ref Bds Ser 2014C-3	6M LIBOR >= 7.00%	$ 1,931	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-3	1M LIBOR >= 7.00%;	465	A+ / Aa3
	6M LIBOR > 4.00% and	208	
	SIFMA/LIBOR Ratio > 74%		
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,785	BBB+/A3
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	1,896	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,075	BBB+/A3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	886	AA-/Aa2
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	2,725	A+ / Aa3
Vet Bds Ser 2014D	N/A	N/A	AA-/Aa2
Vet Bds Ser 2015A	N/A	N/A	BBB+/Baa2
Vet Bds Ser 2015B	N/A	N/A	AA-/Aa2
Vet Bds Ser 2016	N/A	N/A	AA-/Aa2
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A		AA- (Stable)/Aa2 (Stable)
2004D Single Family	N/A		A (Review Upgrade)/A1 (Stable)
2005A Single Family	N/A		A+ (Stable)/ Aa3 (Stable)
2007A Single Family	N/A		A+ (Stable)/ Aa3 (Stable)
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
RFS Bonds 2007B	N/A		Aa2/AA-
RFS Bonds 2007B	N/A		Aa3/A+
PUF Bonds 2008A	N/A		Aa2/AA-
PUF Bonds 2008A	N/A		Aa3/AA-
RFS Bonds 2008B	N/A		Aa3/A+
RFS Bonds 2008B	N/A		A3/BBB+
RFS Bonds 2008B	N/A		Aa3/A+

* PUF stands for permanent university fund and RFS stands for revenue financing system.

risk because the swaps recorded in the positive position were offset by other swaps with negative fair values.

Interest Rate Risk: On the pay-fixed, receive-variable interest rate swaps, as LIBOR or the SIFMA municipal swap index decrease, the state's net payment on the swap increases. For the related hedged variable-rate debt, as LIBOR or the SIFMA municipal swap index decreases, the state's interest payments on the bonds decrease. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

Basis Risk: The state is exposed to basis risk to the extent that the interest payments on its variable-rate

bonds do not match the variable-rate payments received on the associated swaps. The state mitigates this risk by matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and by selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue. Additionally, tax-exempt interest rates can change without a corresponding change in taxable interest rates due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swap associated with the Vet Land Tax Ref Bds Ser 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) provides the counterparty with the option to terminate the swap under certain conditions.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed-rate and the state would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets. At termination, if the fair value of the swap is negative, the state would owe the counterparty a termination payment equal to the swap's negative fair value.

Several swap agreements include optional early termination provisions granting the state the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date or after the breach of certain counterparty credit ratings.

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. The maturity dates of the state's effective interest rate swaps were designed to extend to the maturity dates of the underlying bonds. However, in the case of the swap associated with the Vet Land Tax Ref Bds Ser 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) the state will be subject to rollover risk if the counterparty exercises the option to terminate the swap contract.

Market-access Risk: Each swap associated with underlying variable-rate debt subject to tender at the option of the bondholder is subject to market-access risk. In the event the state is unable to remarket its variable-rate bonds, the state may choose to refund the variable-rate bonds with fixed-rate bonds and optionally terminate the related interest rate swap agreements. If an early termination event occurs, the state could be required to pay or to receive a substantial termination payment.

Swap Payments and Associated Debt

Aggregate debt service requirements of the state's variable-rate debt and net receipts/payments on associated hedging derivative instruments are disclosed in Note 6.

Contingent Features

Some of the state's derivative instruments include provisions that require the posting of collateral in the event that the contracting agency's credit rating falls below a specified level as issued by Standard & Poor's and Moody's Investor Service. If the contracting agency fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. Note 15 discloses detail about derivatives with contingent features.

Investment Derivatives

Investment derivatives expose the state to certain investment related risks. Note 3 discloses detail about the state's investment derivatives.

Note 8

Leases

The state leases office buildings, computer and office equipment and other assets under a variety of agreements. Although lease terms vary, most leases are subject to biennial appropriation from the Legislature to continue the lease obligations.

Operating Leases

Operating lease payments are recorded as expenditures or expenses during the life of the lease. Rental expenditures or expenses related to operating leases for the year ended Aug. 31, 2016, are $415 million for the primary government, $2.3 million for discrete component units and $3.3 million for fiduciary funds. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2016.

Noncancelable Operating Lease Obligations

August 31, 2016 (Amounts in Thousands)

	Minimum Future Lease Payments		
Year	Primary Government	Component Units	Fiduciary Funds
2017	$ 320,341	$ 1,945	$ 1,779
2018	268,078	1,852	1,584
2019	215,356	1,680	1,455
2020	163,731	1,581	1,327
2021	131,640	1,493	731
2022-2026	297,086	3,554	
2027-2031	24,313		
2032-2036	9,336		
2037-2041	9,887		
2042 and beyond	12,440		
Total	$ 1,452,208	$ 12,105	$ 6,876

Additionally, the permanent school fund (PSF), the University of Texas System (UT), the Texas A&M University System (A&M) and the Texas Tech University System (Tech) have leased buildings, equipment and land to outside parties under various operating leases.

The following table presents estimated future lease rental income on noncancelable operating leases as of Aug. 31, 2016.

Noncancelable Operating Lease Rental Income

August 31, 2016 (Amounts in Thousands)

	Minimum Future Lease Rental Income		
Year	Primary Government	Component Units	Fiduciary Funds
2017	$ 34,974	$ 254	$ 42
2018	30,495	62	42
2019	26,921	12	41
2020	20,486		41
2021	17,545		41
2022 and beyond	331,453		435
Total	$ 461,874	$ 328	$ 642

The historical cost of the PSF leased assets is $271.1 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are reappraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2016, PSF reported contingent rental revenues in the amount of $1.2 million.

As of Aug. 31, 2016, the carrying value of UT's leased assets is $95.1 million. The historical cost of UT's leased buildings is $129.8 million and related accumulated depreciation is $45.6 million. The historical cost of UT's leased equipment is $2.6 million and related accumulated depreciation is $2.3 million. The historical cost of UT's leased land is $10.5 million. UT reported contingent rental revenues of $414 thousand.

As of Aug. 31, 2016, the carrying value of A&M's leased assets is $91.7 million. The historical cost of A&M's leased buildings is $149.2 million and related accumulated depreciation is $58.9 million. The historical cost of A&M's leased equipment is $87 thousand and related accumulated depreciation is $80 thousand. The historical cost of A&M's leased land is $1.4 million.

As of Aug. 31, 2016, the carrying value of Tech's leased assets is $44 million. The historical cost of Tech's leased buildings is $61 million and the related accumulated depreciation is $17.3 million. The historical cost of Tech's leased land is $291 thousand.

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Future Capital Lease Payments

August 31, 2016 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2017	$ 4,023	$ 10	$ 4,033	$ 13,373	$ 2,601	$ 15,974	$ 44	$ 2	$ 46
2018	3,998	9	4,007	10,708	2,226	12,934	46	7	53
2019	3,652	8	3,660	7,880	1,925	9,805	47	4	51
2020	3,635	7	3,642	3,679	1,626	5,305	38	2	40
2021	3,632	7	3,639	2,607	1,491	4,098			
2022-2026	8,104		8,104	10,548	6,062	16,610			
2027-2031				12,371	3,519	15,890			
2032-2036				9,291	730	10,021			
Total	$ 27,044	$ 41	$ 27,085	$ 70,457	$ 20,180	$ 90,637	$ 175	$ 15	$ 190

The following table presents an analysis of the property recorded under capital leases by asset category at Aug. 31, 2016.

Assets Under Capital Leases

August 31, 2016 (Amounts in Thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities			
Type	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	$	$	$ 11	$	$	$
Buildings			50,386	(7,195)		
Furniture and Equipment	36,261	(14,223)	35,236	(10,302)	273	(67)
Vehicles, Boats, Aircraft			450	(169)		
Computer Software	1,036	(259)	5,402	(1,585)		
Other Assets			4,517			
Total	$ 37,297	$ (14,482)	$ 96,002	$ (19,251)	$ 273	$ (67)

Note 9

Retirement Plans

Defined Benefit Pension Plans

The state of Texas has three retirement systems in its financial reporting entity – Employees Retirement System of Texas (ERS), Teacher Retirement System of Texas (TRS), and Texas Emergency Services Retirement System (TESRS). These three retirement systems administer the following six defined benefit pension plans:

- ERS – the Employees Retirement System of Texas Plan (ERS Plan), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan), the Judicial Retirement System of Texas Plan One (JRS1 Plan) and Judicial Retirement System of Texas Plan Two (JRS2 Plan);
- TRS – the Teacher Retirement System of Texas Plan (TRS Plan); and
- TESRS – the Texas Emergency Services Retirement System Plan (TESRS Plan).

ERS, LECOS, JRS2, TRS and TESRS Plans are administered through trust; JRS1 Plan is operated on a pay-as-you-go basis.

The state implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, in fiscal 2015. In fiscal year 2016, the state implemented the effective paragraphs of the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The implementation of GASB Statement No. 73 does not impact the reporting of the ERS, LECOS, JRS2, TRS and TESRS Plans which are administered through trust and accounted for and reported in accordance with GASB Statement No. 68 requirements. The implementation of GASB Statement No. 73 does not affect the disclosure for the JRS1 Plan in fiscal 2016. JRS1 Plan is operated on a pay-as-you-go basis with no plan assets and is not set up under trust or equivalent arrangements. This plan is still reported under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

Employees Retirement System of Texas (ERS)

The board of trustees of ERS is the administrator of the ERS, LECOS, JRS1 and JRS2 Plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. Each of these four plans is considered a single employer defined benefit plan under GASB Statement No. 68. The benefit and contribution provisions of the ERS Plans are authorized by state law and may be amended by the Legislature.

Employees Retirement System of Texas Plan (ERS Plan)

In addition to the state of Texas, the ERS Plan includes employers that are component units of the state. ERS and the Texas Treasury Safekeeping Trust company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS Plan. Pension activity for the ERS Plan is reported in governmental activities in the state's basic financial statements. Additionally, due to immateriality separate disclosure for the State Bar of Texas is not presented.

The ERS Plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who are included in the coverage of TRS, JRS1 and JRS2 Plans. Elected class includes elected state officials not included in the coverage of the JRS1 and JRS2 Plans, members of the Legislature and district and criminal district attorneys.

The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The monthly standard annuity of the elected class equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.

ERS issues a stand-alone audited Comprehensive Annual Financial Report (CAFR). Information on vesting and tier requirements may be obtained from ERS' CAFR:

Employees Retirement System of Texas
200 E. 18th Street
Austin, Texas 78701

Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan)

The LECOS Plan provides a supplemental retirement benefit to some employees in the ERS employee class.

The LECOS Plan covers custodial officers employed by the Department of Criminal Justice and law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, and the State Board of Pharmacy.

The monthly benefit amount payable to LECOS Plan members is equal to the excess of total benefit over the regular benefit payable to the same members under the ERS Plan.

Total monthly standard annuity of the LECOS Plan members equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the LECOS Plan members may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation. Information on vesting and tier requirements may be obtained from ERS' CAFR.

Judicial Retirement System of Texas Plan Two (JRS2 Plan)

The JRS2 Plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissioners to a court who first became members after Aug. 31, 1985.

The monthly benefit for members of the JRS2 Plan is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement. Information on vesting and tier requirements may be obtained from ERS' CAFR.

The membership data for the ERS, LECOS and JRS2 Plans as of the measurement date of Aug. 31, 2015 is presented in the table below.

Employees Retirement System's Membership

	ERS Plan	LECOS Plan	JRS2 Plan
Retirees and Beneficiaries Currently Receiving Benefits	100,003	10,845	322
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	101,122	12,962	148
Current Employees Vested and Non-Vested	142,409	38,526	563
Total Members	343,534	62,333	1,033

The contribution rates for the state and the members are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the ERS, LECOS and JRS2 Plans for the measurement period of fiscal 2015 are presented in the table below.

Required Contribution Rates

	Employer			Members		
Plan	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
ERS	8.0%	8.0%	8.0%	6.9%	8.0%	6.9%
LECOS*	1.7%**	N/A	N/A	0.5%	N/A	N/A
JRS2	15.663%	N/A	N/A	6.9%	N/A	N/A

* Amount contributed is supplemental to amount contributed for the employee class of the ERS Plan.

** The 1.7% consists of 0.5% of member payroll and a portion of court costs collected under Local Government Code, Section 133.102. The contribution from the court costs equals approximately 1.2% of payroll.

The state's contributions recognized by the ERS, LECOS and JRS2 Plans during the fiscal 2015 measurement period were $500.4 million, $26.7 million and $12.5 million respectively.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from Sept. 1, 2006 through Aug. 31, 2011. There is a slight modification in the assumption of withdraw rate of member contributions in the fiscal 2015 valuation. Higher percentage of individuals was assumed to withdraw their contributions when terminating due to higher member contribution level. Additionally, the actuarial valuation as of Aug. 31, 2015, also incorporates the most significant across-the-board pay increases budgeted by the state Legislature for the fiscal 2014 - 2015 biennium. The table on the following page presents the actuarial methods and assumptions used to measure the total pension liability for the ERS, LECOS and JRS2 Plans as of the Aug. 31, 2015, measurement date.

Actuarial Methods and Assumptions

	ERS Plan	LECOS Plan	JRS2 Plan
Actuarial Valuation Date	August 31, 2015	August 31, 2015	August 31, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Actuarial Assumptions:			
Discount Rate	6.86%	5.00%	7.06%
Investment Rate of Return	8.0%	8.0%	8.0%
Inflation	3.5%	3.5%	3.5%
Salary Increase	0% to 11.5%	5% to 11.5%	3.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	None - Employee 3.5% - Elected	None	None

The following table presents the single blended rate applied to measure the total pension liability, the long-term expected rate of return on pension plan investments and the 20-year municipal bond rate for the ERS, LECOS and JRS2 Plans.

Assumptions for Single Discount Rate

	ERS Plan	LECOS Plan	JRS2 Plan
Single discount rate	6.86%	5.00%	7.06%
Investment rate of return	8.00%	8.00%	8.00%
Municipal bond rate*	3.79%	3.79%	3.79%
Year fiduciary net position depleted	2053	2037	2045

* The source of the municipal bond rate is the Federal Reserve Statistical Release H. 15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality.

The fiduciary net position for the ERS, LECOS and JRS2 Plans is projected to be depleted in fiscal 2053, 2037 and 2045 respectively. As a result, the long-term expected investment rate of return was applied to projected benefit payments through fiscal 2052 for the ERS Plan, fiscal 2036 for the LECOS Plan and fiscal 2044 for the JRS2 Plan. The municipal bond rate was applied to all remaining projected benefit payments after fiscal 2052 for the ERS Plan, after fiscal 2036 for the LECOS Plan and after fiscal 2044 for the JRS2 Plan.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of the Legislature's commitment to increase funding for the pension funds. The Legislature passed House Bill No. 9 in the 84th legislative session during fiscal 2015 to increase the member contribution rates for fiscal 2016 and 2017. The state contribution rates also increased as a result of this legislative session. The Legislature also maintained some changes made by Senate Bill 1459 in the 83rd legislative session. Considering these above events, the projected employer contributions are based on fiscal 2015 funding level.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on

investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the ERS, LECOS and JRS2 Plans' investment portfolio are presented below.

Target Allocations

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity	55%	4.02%
Global Credit	10%	0.19%
Intermediate Treasuries	15%	0.18%
Real Estate	10%	0.43%
Infrastructure	4%	0.25%
Hedge Funds	5%	0.35%
Cash	1%	0.00%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis for the ERS, LECOS and JRS2 Plans are presented in the table to the right.

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

	1% Decrease	Current Discount Rate	1% Increase
ERS Plan			
Discount Rate	5.86%	6.86%	7.86%
NPL	$ 17,714,684	$ 13,266,444	$ 9,537,338
LECOS Plan			
Discount Rate	4.00%	5.00%	6.00%
NPL	$ 1,187,830	$ 920,646	$ 703,605
JRS2 Plan			
Discount Rate	6.06%	7.06%	8.06%
NPL	$ 119,035	$ 75,154	$ 37,394

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statements No. 67 and No. 31. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2015 CAFR.

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2015. For fiscal 2016 reporting, the measurement date of the state's net pension liability is Aug. 31, 2015. The schedule of changes in the state's net pension liability for the fiscal year ending Aug. 31, 2016 is presented on the following page.

Schedule of Changes in Net Pension Liability

As of Measurement Date of August 31, 2015 (Amounts in Thousands)

	ERS Plan	LECOS Plan***	JRS2 Plan
Total Pension Liability			
Service Cost	$ 1,231,203	$ 57,459	$ 16,244
Interest on the Total Pension Liability	2,373,850	87,222	30,786
Benefit Changes**	(87,835)		
Difference between Expected and Actual Experience of the Total Pension Liability	(284,751)	(9,640)	(10,067)
Assumption Changes*	(3,429,167)	148,114	35,653
Benefit Payments and Refunds	(2,049,291)	(61,344)	(19,238)
Net Change in Total Pension Liability	(2,245,991)	221,811	53,378
Total Pension Liability – Beginning	39,510,917	1,542,978	386,286
Total Pension Liability – Ending	$ 37,264,926	$ 1,764,789	$ 439,664
Plan Fiduciary Net Position			
Contributions – Employer	$ 500,395	$ 26,728	$ 12,457
Contributions – Member	462,160	8,376	5,465
Pension Plan Net Investment Income	56,941	1,918	820
Benefit Payments and Refunds	(2,049,291)	(61,344)	(19,238)
Pension Plan Administrative Expense	(21,840)	(1,412)	(284)
Net Change in Plan Fiduciary Net Position	(1,051,635)	(25,734)	(780)
Plan Fiduciary Net Position – Beginning	25,050,117	869,877	365,290
Plan Fiduciary Net Position – Ending	$ 23,998,482	$ 844,143	$ 364,510
Net Pension Liability – Beginning	14,460,800	673,101	20,996
Net Pension Liability – Ending	$ 13,266,444	$ 920,646	$ 75,154

* The change in the total pension liability due to the change in the single discount is included as an assumption change.
** The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.
*** The actuarial valuation as of August 31, 2015 incorporated the impact of eliminating the 90-day waiting period for LECOS members but there was no immediate impact on the net pension liability.

The change of discount rate and a slight change in the assumption of the withdraw rate of member contributions at termination are the assumption changes during the current measurement period. There have been no changes to the benefit terms of the plan since the prior measurement date.

For the fiscal year ending Aug. 31, 2016, the state recognized pension expense of $342.3 million, $98.3 million and $14.2 million respectively for the ERS, LECOS and JRS2 Plans. At Aug. 31, 2016, the state reported deferred outflows of resources and deferred inflows of resources from the following sources for these plans.

Deferred Outflows of Resources and Deferred Inflows of Resources

(Amounts in Thousands)

	ERS Plan		LECOS Plan		JRS2 Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	$ 293,614	$	$ 55,089	$	$ 7,703
Changes of assumptions	461,180	2,364,209	161,030		26,171	12,697
Net difference between projected and actual investment return	642,720		23,140		10,260	
Contributions subsequent to the measurement date	686,763		27,497		12,374	
Total	$ 1,790,663	$ 2,657,823	$ 211,667	$ 55,089	$ 48,805	$ 20,400

The $686.8 million, $27.5 million and $12.4 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the ERS, LECOS and JRS2 Plans respectively will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years for the ERS, LECOS and JRS2 Plans.

Amortization Impact of Deferred Outflows and Inflows of Resources on Pension Expense*

(Amounts in Thousands)
Year ended August 31:

	ERS Plan	LECOS Plan	JRS2 Plan
2017	$ (774,891)	$ 29,047	$ 1,559
2018	(993,222)	29,047	2,101
2019	(166,354)	29,047	6,702
2020	380,545	40,297	5,668
2021		1,642	
Thereafter			

* Positive amounts indicate increase in pension expense; negative amounts indicate decrease in pension expense.

Judicial Retirement System of Texas Plan One (JRS1 Plan)

The JRS1 Plan covers the same kind of membership as the JRS2 Plan except JRS1 Plan members began membership prior to Sept. 1, 1985.

As a result of new judicial officers participating in the JRS2 Plan, the JRS1 Plan membership continues to decrease. The table below presents the membership for the JRS1 Plan as of Aug. 31,2016.

Employees Retirement System's Membership

	JRS1 Plan
Retirees and Beneficiaries Currently Receiving Benefits	374
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	2
Current Employees Vested and Non-Vested	10
Total Members*	386

* Totals are from actuarial valuation as of Aug. 31, 2016.

Members are required to contribute a percentage of their monthly gross compensation to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are statutorily established like the other ERS Plans. The contribution requirements for the state and the members are presented in the table below.

Required Contribution Rates

JRS1 Plan	
Employer	Members
4419.1%	9.5%

The state's annual pension cost and net pension obligation for fiscal 2016 for the JRS1 Plan is presented in the table below.

Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	JRS1 Plan
Annual Required Contribution (ARC)	$ 17,906
Interest on Net Pension Obligation (NPO)	1,779
Adjustment to ARC	(2,598)
Annual Pension Cost	17,087
Employer Contributions Made	(25,481)
Increase (Decrease) in Net Pension Obligation	(8,394)
Net Pension Obligation, September 1, 2015	46,959
Net Pension Obligation, August 31, 2016*	$ 38,565

* See "Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation

The three-year trend information regarding annual pension cost and the net pension obligation of the JRS1 Plan is presented in the table below.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
JRS1 Plan			
8/31/16	$ 17,087	149.1%	$ 38,565
8/31/15	19,174	138.4%	46,959
8/31/14	21,670	127.9%	54,328

Information on the state's funded status as of Aug. 31, 2016 for the JRS1 Plan is presented in the table below.

Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
JRS1 Plan						
8/31/16	$ 0	$ 328,044	$ 328,044	0.0%	$ 577	56,853.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, provides multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. There are no plan assets for the JRS1 Plan. The plan membership and discount rate continues to decrease. As a result, the actuarial accrued liability increased in fiscal 2016 compared with the fiscal 2015 amount.

The actuarial methods and significant assumptions used for the JRS1 Plan are presented in the table below.

Actuarial Methods and Assumptions

	JRS1 Plan
Actuarial Valuation Date	Aug. 31, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Actuarial Assumptions	
Investment Rate of Return	3.79%
Projected Salary Increases	3.50%
Includes Inflation at	3.50%
Cost-of-Living Adjustments	3.50%

Teacher Retirement System of Texas (TRS)

Teacher Retirement System of Texas Plan (TRS Plan)

TRS is the administrator of the TRS plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation.

The employers of the TRS Plan include the state of Texas, TRS, the state's public schools, education service centers, charter schools, community and junior colleges. All employees of public, state-supported education institutions in Texas who are employed for one-half

or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before Aug. 31, 2005 and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments (COLAs).

TRS issued a stand-alone audited Comprehensive Annual Financial Report (CAFR). The TRS CAFR may be obtained from:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

The state is both an employer and a non-employer contributing entity under the TRS Plan. The state makes contributions to the plan for its employees as well as the employees of the Texas public school districts. During the measurement period of 2015 for fiscal 2016 reporting, the amount of the state's contributions recognized by the plan was $417.7 million for the state as an employer and $1.6 billion for the state as a non-employer contributing entity. Similar to the ERS, LECOS and JRS2 Plans, the contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period of fiscal 2015 are presented in the table below.

Required Contribution Rates

	TRS Plan
Contribution Rates	
Employer	6.8%
Non-Employer Contributing Entity (State)	6.8%
Employees	6.7%

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the Aug. 31, 2015 measurement date.

Actuarial Methods and Assumptions

	TRS Plan
Actuarial Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Actuarial Assumptions:	
Discount Rate	8.0%
Investment Rate of Return	8.0%
Inflation	2.50%
Salary Increase	3.50% to 9.50% including inflation
Mortality	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the four-year period ending Aug. 31, 2014 and adopted in September 2015. There have been changes in inflation, salary increase and mortality assumptions since the prior measurement date. The inflation assumption decreased from 3.00 percent as of the prior measurement date to 2.50 percent as of the current measurement date. The salary increase assumption changed from a range of 4.25 percent to 7.25

percent to a range of 3.50 percent to 9.50 percent since the prior measurement date. The mortality assumption changed from the one based on 1994 Group Annuity Mortality Table to the one based on the RP 2014 employee Mortality Tables for the active members. For the retired members, the new 2015 TRS Healthy Pensioner Mortality Tables were used for the mortality assumption.

There have been no changes to the benefit provisions of the plan since the prior measurement date.

The discount rate of 8.00 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. The projected cash flows into and out of the pension plan assumed that members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8.00 percent long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio are presented to the right.

Target Allocations

TRS Plan

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18%	4.6%
Non-U.S. Developed	13%	5.1%
Emerging Markets	9%	5.9%
Directional Hedge Funds	4%	3.2%
Private Equity	13%	7.0%
Stable Value		
U.S. Treasury	11%	0.7%
Absolute Return	0%	1.8%
Stable Value Hedge Funds	4%	3.0%
Cash	1%	(0.2)%
Real Return		
Global Inflation Linked Bonds	3%	0.9%
Real Assets	16%	5.1%
Energy and Natural Resources	3%	6.6%
Commodities	0%	1.2%
Risk Parity		
Risk Parity	5%	6.7%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis are presented in the table below.

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

TRS Plan

State as Employer

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
$ 7,817,129	$ 4,989,195	$ 2,633,703

State as Non-Employer Contributing Entity

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
$ 29,767,826	$ 18,998,983	$ 10,029,207

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2015 CAFR.

At Aug. 31, 2016, the state reported a liability of $5 billion for its proportionate share of the collective net pension liability as an employer and a liability of $19 billion for its proportionate share of the collective net pension liability as a non-employer contributing entity. The collective net pension liability was measured as of Aug. 31, 2015, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The state's proportion decreased from 16.97 percent at August 31, 2014 to 14.11 percent at August 31, 2015 and from 60.37 percent to 53.75 percent for its role as an employer and non-employer contributing entity respectively. The state's proportions of the collective net pension liability were based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period Sept. 1, 2014 through Aug. 31, 2015.

The state recognized pension expense for its employees' pension and grant expense for the pension of Texas public school district and junior college employees. For the year ending Aug. 31, 2016, the state recognized pension expense of $382.6 million and grant expense of $1.7 billion. At Aug. 31, 2016, the state reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

Deferred Outflows and Deferred Inflows of Resources

(Amounts in Thousands)

	State as Employer		State as Non-Employer Contributing Entity	
TRS Plan	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 58,314	$ 191,739	$ 207,419	$ 730,148
Changes of assumptions	245,094	177,993	871,785	677,800
Net difference between projected and actual investment return	189,440		982,346	
Change in proportion and contribution difference	9,998	664,280		1,519,771
Contributions subsequent to the measurement date	466,216		1,675,631	
Total	$ 969,062	$ 1,034,012	$ 3,737,181	$ 2,927,719

The $466.2 million and $1.7 billion reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as an employer and non-employer contributing entity respectively will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense and grant expense as follows.

Amortization Impact of Deferred Outflows and Inflows of Resources on Pension/Grant Expense

(Amounts in Thousands)
Year Ended August 31:

	TRS Plan	
	State as Employer Pension Expense*	State as Non-Employer Contributing Entity Grant Expense*
2017	$ (151,324)	$ (340,053)
2018	(151,324)	(340,053)
2019	(151,324)	(340,053)
2020	195,106	892,174
2021	(115,720)	(290,544)
Thereafter	(156,582)	(447,641)

* Positive amounts indicate increase in pension or grant expense; negative amounts indicate decrease in pension or grant expense.

Texas Emergency Services Retirement System (TESRS)

Texas Emergency Services Retirement System plan (TESRS Plan)

TESRS is an agency of the state of Texas and the administrator of the TESRS Plan, a cost-sharing multiple-employer defined benefit pension plan with a special funding situation.

The TESRS Plan provides pension benefits for emergency services personnel who serve without significant monetary remuneration through participating fire or emergency services departments within the state. The TESRS Plan provides pension benefits to members with vested service and their beneficiaries as well as death and disability benefits to active volunteer fire fighters and first responders. The benefit and contribution provisions of the TESRS Plan are set by the TESRS board authorized by state law and may be amended by the board. Members are 50 percent vested after the tenth year of service, with the vesting percent increasing 10.00 percent for each of the next five years of service. For a vested member, the monthly pension benefit equals the member's vested percent multiplied by six times the average monthly contribution of the governing body (of the participating department) over the member's years of qualified service. For years of service in excess of 15 years, the monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic postretirement benefit changes.

Contribution provisions are composed of two parts: Part One contributions and Part Two contributions. Part One contributions are determined by the TESRS Board of Trustees and Part Two contributions are actuarially determined.

Part One contributions: Contributions are made by the governing bodies for the participating departments. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for the department. The contributions from the governing bodies are at a minimum rate of $36 per member and there is no limit to the maximum rate. Individuals who are members of the TESRS Plan are not required, nor allowed, to make contributions. The state is required to contribute an amount necessary to make the system "actuarially sound" each year, which may not exceed one-third of the total contributions made by participating governing bodies in a particular year.

Part Two contributions: In case the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation, an actuarially determined contribu-

tion not to exceed 15 percent of the Part One contributions is to be actuarially adjusted for participating governing bodies near the end of each even-numbered calendar year based on the most recent actuarial valuation. According to the actuarial valuation as of Aug. 31, 2014, the Part Two contribution rate was 0.00 percent.

The state of Texas is not an employer of the members under the TESRS Plan. However, the state makes contributions directly to the TESRS Plan for members of the participating fire or emergency services departments in the state. During the measurement period of 2015 for fiscal 2016 reporting, the amount of the state's contributions recognized by the plan was $1.6 million.

The total pension liability is determined by an actuarial valuation as of Aug. 31, 2014 and rolled over to the measurement date of August 31, 2015. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the Aug. 31, 2015 measurement date.

Actuarial Methods and Assumptions

	TESRS Plan
Actuarial Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar
Actuarial Assumptions:	
Discount Rate	7.75%
Investment Rate of Return	7.75%
Inflation	3.50%
Salary Increase	N/A
Mortality	RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.
Ad Hoc Post-Retirement Benefit Changes	None

The discount rate of 7.75 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. The plan's actuary used an alternative method to determine the discount rate. In the actuarial valuation as of Aug. 31, 2014, the actuary used an actuarial value of assets which was $7.9 million less than the TESRS Plan's fiduciary net position as of Aug. 31, 2014 together with the conservative level dollar amortization method and determined that the TESRS Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on the TESRS Plan investments was applied to all periods of projected benefit payments without incorporating the municipal bond rate.

The long-term expected rate of return on the TESRS Plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These rates are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In addition, the final 7.75 percent assumption reflected a reduction of 0.2 percent for adverse deviation.

The target allocation and expected arithmetic real rates of return for each major asset class for the TESRS Plan's investment portfolio are presented below.

Target Allocation

TESRS Plan

Asset Class	Target Allocation	Long-Term Expected Arithmetic Net Real Rate of Return
Equities		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Developed International	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnership	5%	7.1%
Fixed income		
Domestic	21%	1.4%
International	5%	1.6%
Cash	0%	0.0%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis are presented in the table below.

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

TESRS Plan

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
$ 16,189	$ 9,252	$ 5,255

The TESRS Plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TESRS. Contributions are recognized immediately upon billing, reflecting actual participation in the member fire department during the prior quarter. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the TESRS Plan are reported at fair value. The fair value of investments is based on market prices provided by the fund custodian. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, determines the fair values for the individual investments. More detailed information on the plan's investment policy, assets, and fiduciary net position may be obtained from the fiscal 2015 audited Annual Financial Report for TESRS:

Texas Emergency Services Retirement System
P. O. Box 12577
Austin, Texas 78711

At Aug. 31, 2016, the state reported a liability of $9.3 million for its proportionate share of the collective net pension liability as a non-employer contributing entity. The collective net pension liability was measured as of Aug. 31, 2015, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2014 and rolled over to the measurement date of Aug. 31, 2015. The state's proportion as a non-employer contributing entity increased from 33.79 percent at Aug. 31, 2014 to 34.66 percent at Aug. 31, 2015. The state's proportion of the collective net pension liability was based on a fiscal 2015 schedule of contributions consisting of Part One contributions by the contributing fire and emergency services department members and the appropriated "maximum state contributions" as defined in the Texas Emergency Services Retirement System Act.

There has been no change of actuarial methods and assumptions and no change of benefit terms since the prior measurement date.

The state recognized grant expense as a non-employer contributing entity for the pension of the volunteer emergency services personnel in the state. For the year ending Aug. 31, 2016, the state recognized grant expense of $1.4 million. At Aug. 31, 2016, the state reported deferred outflows of resources and deferred inflows of resources related to the emergency services personnel's pension from the following sources.

Deferred Outflows of Resources and Deferred Inflows of Resources

(Amounts in Thousands)

	TESRS Plan	
	State as Non-Employer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment return	$ 1,729	$
Change in proportion and contribution difference	7	173
Contributions subsequent to the measurement date	1,584	
Total	$ 3,320	$ 173

The $1.6 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as a non-employer contributing entity will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to the emergency services personnel's pension will be recognized in grant expense as follows.

Amortization Impact of Deferred Outflows and Deferred Inflows of Resources on Grant Expense

(Amounts in Thousands)
Year ended August 31:

	TESRS Plan State as Non-Employer Contributing Entity Grant Expense*
2017	$226
2018	279
2019	337
2020	723
2021	
Thereafter	

* Positive amounts indicate increase in grant expense; negative amounts indicate decrease in grant expense.

Defined Contribution Pension Plan

Optional Retirement Program

The state's contributions to the Optional Retirement Program (ORP) are authorized by Texas Government Code, Chapter 830. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect ORP in lieu of the TRS Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. ORP is administered by the benefits offices at each employer. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of ORP.

ORP is a defined contribution pension plan in which each participant selects from a variety of investments offered by several insurance and investment companies through annuity contracts or mutual fund investments. These types of investments are authorized by Internal Revenue Code, Section 403(b). With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the companies. Participants vest in ORP after one year of participation.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent and 6.60 percent, respectively, for fiscal 2016. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 1.90 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not prepared because the state retains no liability for plan performance and has very limited administrative involvement.

The employers of ORP are institutions of higher education, one educational state agency and some two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2016 resulted in participant contributions of $255.7 million and employer contributions of $307.1million.

As of Aug. 31, 2016, ORP had 37,613 participants. The total participant contributions were $286.1 million and total employer contributions were $343 million. Additional information for ORP is included in the fiscal 2016 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board. The report can be obtained from:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P. O. Box 12788
Austin, Texas 78711

Note 10

Deferred Compensation

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457. The second was established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

The University of Texas System (UT) offers two deferred compensation plans. The first one, for UT employees, was created in accordance with Internal Revenue Code, Section 457(b), where all UT employees are eligible to participate in UT's plan and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. UT has no liability under the plan. The second one, Physician Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP), was created for physicians of the University of Texas M.D. Anderson Cancer Center (M.D. Anderson), a component unit of UT. It was established in accordance with Internal Revenue Code, Section 457(f). Only physicians hired before July 1, 1986, participate in the SRP. The remainder of eligible employees participates in the RBP. Assets of the SRP/RBP remain subject to the claims of the general creditors of M.D. Anderson.

The Texas A&M University System (A&M System) offers a deferred compensation plan created in accordance with Internal Revenue Code, Section 457(f). It allows the A&M System to defer income for eligible participants without regard to the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. All A&M System employees are eligible to participate in this plan subject to the approval of the A&M System's board of regents, chancellor, or any chancellor-designated member chief executive officer.

Note 11

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are established by the General Appropriations Act.

The state of Texas is a participating employer in three different OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

University of Texas and Texas A&M University Systems

The state of Texas contributes to two single-employer defined benefit retiree health care and life insurance benefit plans: the University of Texas System Employee Group Insurance Program (UT Plan) and Texas A&M University System Group Insurance Program (A&M Plan). The UT Plan is administered by the University of Texas System (UT) and the A&M Plan is administered by the Texas A&M University System (A&M).

UT and A&M each issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at the following addresses:

University of Texas System
601 Colorado Street
Austin, Texas 78701-2982

Texas A&M University System
200 Technology Way
College Station, Texas 77845

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees of these University systems are considered to be state employees. Benefit provisions for the UT and A&M plans are established and amended by the administering systems as allowed under Texas Insurance Code, Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

The university system and member contribution rates are determined annually by each University system based on the recommendations of the employee benefits office and consulting actuaries. The plan rates are based on the plan costs expected to be incurred, the funds appropriated for the plans and the funding policy established by the Legislature in connection with benefits provided through the plan. Amounts contributed by the state are currently based on pay-as-you-go financing requirements determined during each legislative session. State contribution requirements are established and may be amended by the Legislature. The three-year history of employer contributions and annual OPEB costs is presented in the table below:

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ended	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/16	$ 197,816	$ 860,270	23.0%	$ 4,647,431
8/31/15	185,328	810,956	22.9%	3,984,976
8/31/14	166,517	726,387	22.9%	3,359,348
A&M Plan				
8/31/16	$ 64,215	$ 198,140	32.4%	$ 1,117,799
8/31/15	62,620	186,728	33.5%	983,874
8/31/14	50,099	190,640	26.3%	859,766

For the fiscal year ended Aug. 31, 2016, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates for the state and retirees are presented in the table below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Required Contribution Rates – Retiree Health Care and Life Insurance Premium

For the Fiscal Year Ended August 31, 2016

	UT Plan		A&M Plan	
Level of Coverage	Employer	Plan Member	Employer	Plan Member*
Retiree Only	$ 567	$	$ 548	$ 10
Retiree/Spouse	864	244	819	281
Retiree/Children	757	255	758	200
Retiree/Family	1,056	481	927	390

* Plan member contribution for health insurance only. There is no plan member contribution for basic life.

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the employer annual required contributions (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding, that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The table below presents the components of the annual OPEB cost for the UT and A&M plans for fiscal 2016 and the net OPEB obligation for these two plans as of Aug. 31, 2016.

Annual OPEB Cost and Net OPEB Obligation
(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution, ARC	$ 804,985	$ 178,632
Interest on Net OPEB Obligation	239,099	72,806
Adjustment to ARC	(183,813)	(53,298)
Annual OPEB Cost	860,271	198,140
Employer Contributions Made	(197,816)	(64,215)
Increase in Net OPEB Obligation	662,455	133,925
Net OPEB Obligation, September 1, 2015	3,984,976	983,874
Net OPEB Obligation, August 31, 2016	$ 4,647,431	$ 1,117,799

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2016, based on UT's valuation as of Dec. 31, 2015 and A&M's valuation as of Sept. 1, 2014 valid for fiscal 2016 reporting, is presented in the table above in the next column.

Funded Status
(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2015	Sept. 1, 2014
Actuarial Value of Plan Assets	$	$
Actuarial Accrued Liability (AAL)	8,584,045	2,002,649
Unfunded Actuarial Accrued Liability (UAAL)	$ 8,584,045	$ 2,002,649
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	$ 5,948,245	$ 1,440,510
UAAL as a Percentage of Covered Payroll	144.3%	139.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The amounts which determine the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Since there are no plan assets for the UT and A&M plans, the actuarial accrued liability for these two plans continues to increase.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include tech-

niques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. The table below provides additional detail on the actuarial methods and assumptions used in the UT and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2015	Sept. 1, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Pay	Level Percent of Pay
Amortization Period	30 years, Open	30 years, Open
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Projected Salary Increases	4.5% to 10.5%	4.75% to 7.75%
Investment Rate of Return	6.00%	7.40%
Includes Inflation at	3.50%	3.50%
Health Care Trend Rates	7% in Fiscal 2017 Increasing to 8.00% in Fiscal 2018 and declining to 5.5% in Fiscal 2024	8% in Fiscal 2016 declining to 5.5% in Fiscal 2022
Mortality Tables[1]	TRS tables[2]	TRS and PBGC tables[3]

1. As most of the UT and A&M group insurance program OPEB plan members participate in the Teacher Retirement System (TRS) retirement plan, the mortality tables used by TRS retirement plan that reflects TRS specific experience was adopted for UT and A&M service retirees and UT disability retirees.
2. For UT service retirees, tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 were used. For disability retirees, same mortality tables for service retirees but using a three-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members were used.
3. For A&M service retirees, tables based on TRS experience were used. For disability retirees, the Pension Benefit Guaranty Corporation (PBGC) male and female disability mortality tables were used.

Employees Retirement System of Texas

The Employees Retirement System of Texas (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551.

The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 62 participating employers.

There is no special funding situation in SRHP. In a cost-sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements.

For cost-sharing multiple-employer defined benefit plans like SRHP, the amount of OPEB liability or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB plan are not required to be based on the plan ARC.

Each employer has limited note disclosure requirements under the cost-sharing multiple-employer provisions of GASB Statement No. 45. No disclosure of actuarial information as it relates to the entire plan is required on individual employer reports. Instead, the OPEB plan discloses all required actuarial calculations in the notes to its financial statements and required supplementary information. ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Plan Description

Retirees of state agencies, institutions of higher education including the University of Texas Medical Branch Correctional Managed Care program and the University of Texas Mental Sciences Institute of the University of Texas Health Science Center at Houston (other parts of UT and A&M are under the UT Plan and A&M Plan, respectively) and other non-state entities selected by the

Legislature are eligible to receive OPEB through SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. The table below summarizes the maximum monthly state and retiree contributions toward the health and basic life premiums of eligible retirees.

Required Contribution Rates – Retiree Health Care and Life Insurance Premium

For the Fiscal Year Ended August 31, 2016

	ERS SRHP	
Level of Coverage	Employer	Plan Member
Retiree Only	$ 577	$
Retiree/Spouse	907	330
Retiree/Children	798	221
Retiree/Family	1,128	551

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2016 the state contributed $576 million to SRHP, which equaled the required contribution as established by the Legislature. In fiscal 2015 and fiscal 2014, the state contributed $549 million and $535 million, respectively. These contributions also equaled the contribution required by the Legislature.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,222 participating employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents.

The state of Texas is not an employer in the TRS-Care OPEB plan and is not legally required to continue contributing benefits. The fiscal 2016 contributions to the TRS-Care OPEB plan are presented in the table below.

Schedule of Contributions from the Employers and Other Contributing Entities

For the Fiscal Year Ended August 31, 2016
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	$ 189,112
On Behalf From State	297,071
On Behalf From Federal Government	23,824
	$ 510,007

TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to TRS at:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles

based upon enrollment in Part A or Part B of Medicare. Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code, Chapter 1575.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year.

TRS-Care retiree health care and life insurance benefits are financed on a pay-as-you-go basis. The expenses are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Medicare Part D

In fiscal 2016 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. On-behalf payments are recorded as revenues and expenses of each plan. The table below presents Medicare Part D receipts from the federal government as reported by the OPEB administrators in fiscal 2016.

Medicare Part D Receipts
For the Fiscal Year Ended August 31, 2016
(Amounts in Thousands)

UT Plan	$ 11,621
A&M Plan	4,276
ERS SRHP	69,185
TRS-Care	58,230
	$ 143,312

Note 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity with a requirement for repayment. These loans are reported as interfund receivables/payables and are classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year-end are accrued as due from/due to. Activity occurring within the same fund is eliminated. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as transfers-internal activities.

Certain reclassifications and eliminations are made between the fund financial statements and the govern-

ment-wide financial statements. Resource flows between the primary government and its discretely presented component units are reported as revenues and expenses, as if they were external transactions, on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they were external transactions, on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions, on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. These reimbursements are reported in the appropriate expenditure/expense category in the fund responsible for the payment.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The interfund receivables/payables include loans for energy efficiency programs of approximately $30.7 million. There is also a $1 billion receivable for Texas A&M University System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a $1.9 billion transfer from the property tax relief fund and a $1.4 billion transfer from the lottery fund to the foundation school fund for educational programs. There is also a $1 billion transfer from the permanent school fund to the available school fund.

The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2016, is presented in the tables below and on the following page.

Interfund Receivables/Payables

(Amounts in Thousands)

	Current		Noncurrent		Total	
Fund Type	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
GOVERNMENTAL FUNDS						
General Fund	$ 6,954	$ 122	$ 23,820	$ 17	$ 30,774	$ 139
Nonmajor Governmental Funds		308		2,314		2,622
	6,954	430	23,820	2,331	30,774	2,761
PROPRIETARY FUNDS						
Colleges and Universities	48,475	55,139	971,261	994,890	1,019,736	1,050,029
Nonmajor Enterprise Funds	150	10	2,140		2,290	10
	48,625	55,149	973,401	994,890	1,022,026	1,050,039
Total	$ 55,579	$ 55,579	$ 997,221	$ 997,221	$ 1,052,800	$ 1,052,800

Due From/Due To

(Amounts in Thousands)

Fund Type	Due From Other Funds	Due From Primary Government	Due From Component Unit	Due To Other Funds	Due To Primary Government	Due To Component Unit
GOVERNMENTAL FUNDS						
General Fund	$ 146,929	$	$	$ 1,897,023	$	$
State Highway Fund	675,737			60,350		
Permanent School Fund	5			17		
Nonmajor Governmental Funds	325,441			163,862		
	1,148,112	0	0	2,121,252	0	
PROPRIETARY FUNDS						
Colleges and Universities	964,267			29,889		
Unemployment Trust Fund	2,964					
Lottery Fund				121,542		
Nonmajor Enterprise Funds	95,253			10,256		
Internal Service Fund	506,963			13,006		
	1,569,447	0	0	174,693	0	0
FIDUCIARY FUNDS						
Agency Funds	8			638		
Pension and Other Employee Benefit Trust Funds	96,415			517,399		
	96,423	0	0	518,037	0	0
DISCRETELY PRESENTED COMPONENT UNITS	0	0	0	0	0	0
Total	$ 2,813,982	$ 0	$ 0	$ 2,813,982	$ 0	$ 0

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
GOVERNMENTAL FUNDS		
General Fund	$ 4,513,353	$ 7,273,103
State Highway Fund	571,871	448,683
Permanent School Fund		1,056,412
Nonmajor Governmental Funds	2,501,778	3,587,114
	7,587,002	12,365,312
PROPRIETARY FUNDS		
Colleges and Universities	6,511,661	405,456
Lottery Fund		1,392,306
Nonmajor Enterprise Funds	120,284	57,356
Internal Service Funds		1,750
	6,631,945	1,856,868
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	112,944	109,688
Private-Purpose Trust Funds	7,854	7,877
	120,798	117,565
Total	$ 14,339,745	$ 14,339,745

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances	$ 21,489	$ (21,489)	$ 0
CURRENT LIABILITIES			
Internal Balances	$ 894,273	$ (894,273)	$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$ (4,777,546)
Business-Type Activities	$ 4,777,546

Note 13

Classification of Fund Balances/ Net Position

The table on the following pages presents a summary of the governmental fund balances by fund type and specific purpose as of Aug. 31, 2016.

The classifications of nonspendable, restricted, committed, assigned and unassigned are the fund balance classifications according to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. With the exception of nonspendable fund balances, fund balances are presented based on each fund's specific purpose. For the general fund, special revenue funds, capital projects funds and nonmajor permanent funds, the specific purpose of the fund is determined by the Texas Legislature. The revenues received to fund the programs within the fund and the applicable expenditures allowed from the fund are derived through statute. The fund may support multiple programs within multiple agencies. The remaining unspent fund balances are determined to be restricted, committed, assigned or unassigned at fiscal year-end. Unassigned fund balances are then reported by the governmental function assigned to the agency.

Of the $7.7 billion governmental funds total unassigned fund balance, $10.2 billion is for the economic stabilization fund (ESF). The ESF was authorized by the Texas Constitution, Article III, Section 49g. This authorized a transfer to the ESF within 90 days after the end of the fiscal year. In November of each year a transfer is made from the general revenue fund equal to 75 percent of the excess of the prior fiscal year collections for oil and natural gas production taxes over 1987 collections. An amendment to the Texas Constitution, passed in November 2014, amended the transfer to include the state highway fund. As of fiscal 2015, the ESF receives at least one-half of the 75 percent transferred and the remainder is transferred to the state highway fund.

The ESF shall also receive a transfer from the general revenue fund, by the 90th day of each biennium, for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The Legislature may appropriate, by a three-fifths vote of the members present in each house, amounts in the ESF for spending that does not exceed the amount of any unanticipated deficit or revenue decline during a biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB Statement No. 54, balances reported as restricted in the fund financial statements plus the nonspendable permanent fund corpus balances are reported as restricted in the statement of net position. All other fund financial balances are reported as unrestricted in the statement of net position.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned

(Amounts in Thousands)

	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Nonspendable for:					
Inventory	$ 241,544	$ 161,972	$	$ 170	$ 403,686
Long-term Receivables	483,310				483,310
Permanent Principal			15,729,898	797,512	16,527,410
Prepaid Items	2,773		2,279		5,052
Total Nonspendable	727,627	161,972	15,732,177	797,682	17,419,458
Restricted:					
Capital Purposes	130,164			492,751	622,915
Debt Service				268,032	268,032
Economic and Consumer Affairs	500,143			47,984	548,127
Education – Public Schools	550,486		21,531,752	868,835	22,951,073
Education – Loan Programs				1,044,645	1,044,645
Environment and Natural Resources – Other	22			2,736,455	2,736,477
General Government*	125,341			295,429	420,770
Parks and Recreation	70,940			17,245	88,185
Public Health and Welfare – Federal Programs	17,895				17,895
Public Health and Welfare – Public Programs	80,075			14,022	94,097
Public Safety and Criminal Justice	56,868				56,868
Public Safety and Criminal Justice – Corrections				4,724	4,724
Public Safety and Criminal Justice – Law Enforcement	9,311			3,188	12,499
Transportation – Construction		1,791,918			1,791,918
Transportation – Licensing and Regulation		116,489			116,489
Transportation – Maintenance		258,333			258,333
Transportation – Other	5,420	1,011,392		1,081,278	2,098,090
Total Restricted	1,546,665	3,178,132	21,531,752	6,874,588	33,131,137

Concluded on the following page

* General Government is tasked with the collection of revenues that benefit the state overall and has expenditures that are not restricted to carry out specific programs or purposes. Included in the classification are the fund balances of state agencies that are semi-independent and do not receive appropriations for operating purposes.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned (concluded)

(Amounts in Thousands)

	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Committed:					
Capital Purposes	$ 2,930	$	$	$	$ 2,930
Economic and Consumer Affairs	769,530			6,278	775,808
Education – Public Schools	75,211			10,563	85,774
Education – Loan Programs	399,038				399,038
Environment and Natural Resources – Other	2,089,397			186	2,089,583
General Government*	450,896			34,048	484,944
Parks and Recreation	116,601				116,601
Public Health and Welfare – Federal Programs	255				255
Public Health and Welfare – Public Programs	533,517				533,517
Public Safety and Criminal Justice	139,506			9,418	148,924
Public Safety and Criminal Justice – Corrections				3,411	3,411
Public Safety and Criminal Justice – Law Enforcement	25,390				25,390
Transportation – Construction		667,347			667,347
Transportation – Maintenance		96,209			96,209
Transportation – Other		376,663		71,399	448,062
Total Committed	4,602,271	1,140,219	0	135,303	5,877,793
Assigned:					
Economic and Consumer Affairs	14,082				14,082
Environment and Natural Resources – Other	6,287				6,287
General Government*	94,906			1,839	96,745
Transportation – Construction		335,069			335,069
Transportation – Maintenance		48,306			48,306
Transportation – Other		189,119			189,119
Total Assigned	115,275	572,494	0	1,839	689,608
Unassigned:					
Economic and Consumer Affairs	11,135				11,135
Education	170,487				170,487
Environment and Natural Resources	147,050				147,050
General Government*	(3,453,943)				(3,453,943)
General Government - ESF	10,164,315				10,164,315
Public Health and Welfare	316,836				316,836
Public Safety and Corrections	273,982				273,982
Transportation	50,267				50,267
Total Unassigned	7,680,129	0	0	0	7,680,129
Total Fund Balances – Governmental Funds	$ 14,671,967	$ 5,052,817	$ 37,263,929	$ 7,809,412	$ 64,798,125

* General Government is tasked with the collection of revenues that benefit the state overall and has expenditures that are not restricted to carry out specific programs or purposes. Included in the classification are the fund balances of state agencies that are semi-independent and do not receive appropriations for operating purposes.

Note 14

Restatement of Beginning Balances

During fiscal 2016, certain accounting changes and adjustments were made that required the restatement of fund balances or net position. The beginning balances and all related restatements for the components of the state's financial reporting entity are presented in the table below and discussed on the following page.

Restatements to Net Position/Fund Balances

(Amounts in Thousands)

	September 1, 2015, As Previously Reported	GASB Statements No. 72	Change in Reporting Entity	Correction of Prior Year Errors	September 1, 2015, As Restated
GOVERNMENT-WIDE ACTIVITIES:					
PRIMARY GOVERNMENT:					
Governmental Activities	$ 94,286,652	$ 1,910,566	$ (1,240)	$ 180,027	$ 96,376,005
Business-type Activities	53,421,004	5,264,168		(936)	58,684,236
Total Primary Government	$ 147,707,656	$ 7,174,734	$ (1,240)	$ 179,091	$ 155,060,241
Discrete Component Units	$ 563,920	$	$ 34,354	$ (4,711)	$ 593,563
FUND FINANCIAL STATEMENTS:					
GOVERNMENTAL FUNDS					
Major Governmental Funds:					
General Fund	$ 17,882,009	$	$	$ (5,421)	$ 17,876,588
State Highway Fund	5,286,794			(8,578)	5,278,216
Permanent School Fund	33,833,543	1,910,566			35,744,109
Nonmajor Governmental Funds:					
Special Revenue Funds	4,730,048		(1,240)	(1,517)	4,727,291
Debt Service Funds	770,745				770,745
Capital Project Funds	1,106,824			3,211	1,110,035
Permanent Funds	1,070,157				1,070,157
Total Governmental Funds	$ 64,680,120	$ 1,910,566	$ (1,240)	$ (12,305)	$ 66,577,141
PROPRIETARY FUNDS					
Major Enterprise Funds:					
Colleges and Universities	$ 46,988,113	$ 5,264,168	$	$ 958	$ 52,253,239
Unemployment Trust Fund	1,478,183				1,478,183
Lottery Fund	49,364				49,364
Nonmajor Enterprise Funds	4,905,344			(1,894)	4,903,450
Total Proprietary Funds	$ 53,421,004	$ 5,264,168	$	$ (936)	$ 58,684,236
Internal Service	$ 440,466	$	$	$	$ 440,466
FIDUCIARY FUNDS					
Pension and Other Employee Benefit Trust Funds	$ 154,819,598	$	$	$	$ 154,819,598
External Investment Trust Funds	12,874,456			(251,514)	12,622,942
Private-Purpose Trust Funds	3,613,514			(209,922)	3,403,592
Total Fiduciary Funds	$ 171,307,568	$	$	$ (461,436)	$ 170,846,132
Total Reporting Entity *	$ 319,579,144	$ 7,174,734	$ 33,114	$ (287,056)	$ 326,499,936

* Reporting entity includes primary government, discrete component units and fiduciary funds.

Restatements are grouped in the table on the previous page by the following types of activity:

GASB Pronouncements and Related Items

These restatements are to record the effect of the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. As a result, the state restated sovereign lands, previously recorded at historical cost, at fair value with a $1.9 billion restatement increase in the permanent school fund and a $5.3 billion restatement increase in the colleges and universities fund.

Changes in the Reporting Entity

The $1.2 million restatement decrease in the special revenue fund is to record the Alamo Endowment, previously a blended component unit, as a discretely presented component unit. The $34.4 million restatement increase in discrete component units is a result of abolishing the Texas Health Insurance Pool as of Aug. 31, 2015 and removing the Texas Title Insurance Guaranty Association, Texas Life and Health Insurance Guaranty Association and Texas Property and Casualty Insurance Guaranty Association as discretely presented component units from the state of Texas reporting entity.

Correction of Prior Year Errors

Government-wide activities

Governmental activities include a restatement increase of $98.7 million for adjustments to capital assets and accumulated depreciation or amortization. The remaining restatements primarily include increases of $81.3 million to correct accounting errors in the prior period related to consumable inventories, materials and supplies, equipment, vehicles, capital outlay, accounts receivables, license, fees and changes in interest payable calculation method.

Business-type activities include a restatement decrease of $3.4 million for adjustments to capital assets and accumulated depreciation or amortization. The remaining restatements primarily include increases of $2.5 million to correct accounting errors in the prior period related to legislative appropriations and changes in accounting principle.

Discrete component units include restatement decrease of $4.7 million to correct accounting errors in the prior period related to revenue write-offs and fund balance.

Fund Financial Statements-Governmental

The restatements for governmental funds of $5.4 million decrease in the general fund and $8.6 million decrease in the state highway fund primarily include correction of accounting errors in the prior period related to legislative appropriations, consumable inventories, materials and supplies, equipment, vehicles, license fees and permits, capital outlay and accounts receivables.

The restatements for other nonmajor governmental funds of $1.5 million decrease in special revenue funds and $3.2 million increase in capital projects funds primarily include correc-

tion of accounting errors in the prior period related to correct the interest rate on loans and overstated payables.

Fund Financial Statements-Proprietary

The restatements for colleges and universities of $958 thousand increase primarily include correction of accounting errors in the prior period related to capital assets, accumulated depreciation or amortization and changes in accounting principle. The other non-major funds primarily include $1.9 million restatement decrease to correct accounting errors in the prior period related to legislative appropriations.

Fund Financial Statements-Fiduciary

The restatements for external investment trust funds of $251.5 million decrease and private-purpose trust funds of $209.9 million decrease are to correct accounting errors in the prior period related to Texpool and Texpool Prime investment, liabilities and funds held in local banks.

Restatements to Change in Net Position

(Amounts in Thousands)

	Sept. 1, 2014 Previously Reported	Change in Net Position Aug 31, 2015 As Previously Reported	GASB Statement No. 72	Change in Reporting Entity	Correction of Prior Year Errors	Change in Net Position Aug 31, 2015 as Restated	Net Position Sept 1, 2015 as Restated
GOVERNMENT-WIDE ACTIVITIES:							
PRIMARY GOVERNMENT:							
Governmental Activities	$ 90,637,576	$ 3,649,076	$ 1,910,566	$ (1,240)	$ 180,027	$ 5,738,429	$ 96,376,005
Business-type Activities	52,482,712	938,292	5,264,168		(936)	6,201,524	58,684,236
Total Primary Government	$ 143,120,288	$ 4,587,368	$ 7,174,734	$ (1,240)	$ 179,091	$ 11,939,953	$ 155,060,241
Discrete Component Units	$ 525,511	$ 38,409	$ 0	$ 34,354	$ (4,711)	$ 68,052	$ 593,563

Note 15

Commitments and Contingencies

Commitments

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes. These loan commitments are provided from remaining current bond proceeds, future bond proceeds and federal drawdowns. The Texas Water Development Board had loan commitments of $3.9 billion as of Aug. 31, 2016. The Texas Department of Transportation (TxDOT) has equity loan commitments of $15.4 billion. Of this amount, $5.9 billion is related to North Texas Tollway Authority for State Highway 161 Project in Dallas. The remaining $9.5 billion is used by the Grand Parkway Transportation Corporation to pay for certain costs related to development, construction, operation, maintenance and financing of projects in Harris County and possible extensions or expansions of the Grand Parkway in the Houston area.

Investment Funds

As of Aug. 31, 2016, state agencies, public employee retirement systems and institutions of higher education have entered into capital commitments with investment managers for future funding of investment

funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. As of Aug. 31, 2016, the remaining commitment was $44 billion.

Construction and Other Commitments

As of Aug. 31, 2016, TxDOT had contractual commitments of approximately $11.9 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 2016, the amount of unrealized payables for uncompleted pass-through toll agreements was $174.2 million. In addition, TxDOT has equity grant commitments of $251 million to various local toll project entities.

The University of North Texas system initiated approximately $457 million in capital commitments for construction and renovation of various facilities in numerous stages of development.

Contingencies

Protested Tax Payments

As of Aug. 31, 2016, pending litigation filed by taxpayers seeking refunds of state taxes totaled $213 million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2016. These claims totaled $125.9 million and include a number of lawsuits and claims that may be significant to individual state agencies. Although the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed 685 cases exercising eminent domain for $368.9 million.

Federal Assistance

The state receives federal financial assistance subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state but is considered immaterial to its overall financial condition.

The Texas Office of the Attorney General and the Texas Health and Human Services Commission's Office of Inspector General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the "open case list") and may represent a corresponding potential liability for the federal share of these payments – about 55 to 60 percent of that total.

An actual liability is realized only after a completed investigation substantiates an overpayment and the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of

total dollars on the open case list that are ultimately confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

Guaranteed Debt

In 1983, Texas voters approved a constitutional amendment that establishes the guarantee of the permanent school fund for a defined capacity of up to $97 billion in school district bonds as of Aug. 31, 2016. Approval by the state of Texas attorney general is required for each bond issuance. In the event of a default by a school district, the permanent school fund will transfer to the paying agent/registrar an amount necessary to pay the maturing or matured principal and/or interest to bondholders. As of Aug. 31, 2016, $67.3 billion debt in outstanding bond issues was guaranteed by the permanent school fund for 837 school districts and $961 million for 14 charter districts within the state. Under statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. These dollar amounts represent the principal amount and do not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities), nor do they include interest on current interest bonds or variable rate notes. These amounts also exclude bonds that were refunded and released from the bond guarantee program. From the inception of the program through Aug. 31, 2016, none of the school districts or charter districts with guaranteed debt have defaulted on the debt.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and institutions of higher education responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Derivatives with Contingent Features

All of the Department of Housing and Community Affairs' (TDHCA) hedging derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. As of Aug. 31, 2016, the aggregate fair value of all derivative instruments with collateral provisions was $15.1 million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. TDHCA posted no collateral as of Aug. 31, 2016.

The Teacher Retirement System of Texas (TRS) investment derivative instruments include provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug. 31, 2016, the aggregate fair value of all derivative instruments with these provisions was $27.3 million. If the collateral posting thresholds of all these investment derivative instruments did not exist, TRS would be required to post the aggregate amount of $9.1 million in collateral to its counterparties. Where none of the contractual thresholds were surpassed, TRS has posted no collateral as of Aug. 31, 2016.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued $5.2 billion in new bonds and commercial paper and $3 billion in refunding bonds since Aug. 31, 2016, as presented in the table below and on the following pages. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Other Subsequent Events

On Nov. 4, 2015, Texas voters approved the ballot measure known as Proposition 7, which created a constitutional amendment for transportation funding. The amendment increases money to build roads by adding sales tax revenue to the State Highway Fund beginning in fiscal year 2018.

On Sept. 16, 2016, ITT Educational Services filed for bankruptcy and on October 16, 2016, Career Point College, announced the immediate closure of its Austin and San Antonio campuses. It is expected that these closures, which affected thousands of Texas students, will have a significant effect on the Career School or College Tuition Trust Account Fund, which assists students of closed schools in recovering tuition or in arranging similar training in another school.

On Sept. 30, 2016, Texas Department of Housing and Community Affairs issued a $29.5 million multifamily governmental note to finance the acquisition, construction and equipping the Mercantile Apartments multifamily rental housing development.

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2016

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
OFFICE OF THE GOVERNOR			
State of Texas General Obligation Refunding Bonds, Series 2016	$ 25,490	11/17/16	To fund the Texas Military Value Revolving Loan Program managed by the Office of the Governor and to provide debt service savings.
VETERANS LAND BOARD			
State of Texas Veterans' Bonds, Series 2017	250,000	01/12/17	To augment the Veterans' Housing Assistance Fund II.
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
Multifamily Revenue Bonds, Series 2016	18,750	09/15/16	To fund the acquisition, construction, and equipping of multifamily rental housing developments.
TEXAS PUBLIC FINANCE AUTHORITY			
State of Texas Revenue Commercial Paper Program, Series 2016A (Taxable) and 2016B (Tax-Exempt)	10,000	09/15/16	To fund project expenditures for the Texas Facilities Commission.
General Obligation Commercial Paper Notes, Series 2008	2,500	09/21/16	To fund various projects of multiple agencies.
General Obligation Commercial Paper Notes, Series 2008	1,500	10/20/16	To fund various projects of multiple agencies.
MLPP Commercial Paper Notes, Series 2003	1,500	10/11/16	To fund equipment purchases.
General Obligation CPRIT Commercial Paper Notes, Series A (Taxable)	58,000	10/19/16	To fund CPRIT's grant awards.
General Obligation Commercial Paper Notes, Series 2008	2,000	11/18/16	To fund various projects of multiple agencies.
General Obligation Commercial Paper Notes, Series 2008	3,250	12/13/16	To fund various projects of multiple agencies.
Master Lease Purchase Program Notes, Series 2003	500	01/9/17	To fund equipment purchases.

Continued on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2016 (continued)

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS PUBLIC FINANCE AUTHORITY (concluded)			
General Obligation Commercial Paper Notes, Series 2008	7,500	01/20/17	To fund various projects of multiple agencies.
TPFA General Obligation Bonds, Taxable, Series 2017	375,000	01/25/17	To refund outstanding commercial paper and fund CPRIT's grant awards.
TEXAS WATER DEVELOPMENT BOARD			
State Water Implementation Revenue Fund, Texas Revenue Bonds, Series 2016	600,065	10/13/16	To provide financial assistance through the purchase of or entering into political subdivision obligations, and to pay the costs of issuance of the bonds.
TEXAS DEPARTMENT OF TRANSPORTATION			
State Highway Fund Revenue Bonds, Series 2016A	601,210	10/26/16	To fund highway improvement projects.
State Highway Fund Revenue Refunding Put Bonds, Series 2016B	89,370	10/26/16	To refund outstanding bonds to finance highway improvement projects.
Texas Highway Improvement General Obligation Bonds, Series 2016A	588,755	11/02/16	To fund highway improvement projects and pay costs of issuance.
Grand Parkway Transportation Corporation Revenue Bonds, Series 2016	83,775	12/07/16	To refund debt and pay costs of issuance.
Grand Parkway Transportation Corporation (TIFIA Loan)	840,645	12/13/16	To refund debt and pay costs of issuance.
Interstate Highway 35E Project (TIFIA Loan)	285,000	12/1/16	To pay a portion of the eligible project costs.
Texas Mobility Fund General Obligation Bonds, Series 2017A	296,020	02/01/17	To refund debt and pay costs of issuance.
Texas Mobility Fund General Obligation Bonds, Series 2017B	474,135	02/01/17	To refund debt and pay costs of issuance.
TEXAS SOUTHERN UNIVERSITY			
Texas Southern University Revenue Financing System Bonds, Series 2016	55,490	09/15/16	To fund acquisition, construction, and improvements of Texas Southern University educational facilities.
MIDWESTERN STATE UNIVERSITY			
Revenue Bonds, Series 2016A	49,845	9/15/16	To fund new construction and renovations across Midwestern University campus.
Revenue Refunding Bonds, Series 2016A	22,405	9/15/16	To advance refund a portion of the Midwestern State University outstanding Series 2008 and Series 2010 revenue bonds.
Revenue Refunding Bonds, Series 2016B	11,790	9/15/16	To advance refund the remaining 2008 Series revenue bonds on a taxable basis.
STEPHEN F. AUSTIN STATE UNIVERSITY			
Revenue Financing System Revenue Refunding and Improvement Bonds, Series 2016	61,205	09/07/16	To refund certain outstanding Series 2008 and 2009 Revenue Financing System Revenue Bonds; for constructing building; and, for paying the costs of issuance.
TEXAS HIGHER EDUCATION COORDINATING BOARD			
State of Texas General Obligation Bonds, Series 2016	180,000	12/13/16	Fund ongoing student loan program which provides low interest loans to eligible Texas college students.
TEXAS TECH UNIVERSITY SYSTEM			
Revenue Financing System Commercial Paper Notes Tax-Exempt, Series A	25,000	10/20/16	To fund new building construction and renovation.
Revenue Financing System Commercial Paper Notes Taxable, Series A	7,200	12/01/17	To fund new construction, renovation and additions across university system campuses.
Revenue Financing System Commercial Paper Notes Tax-Exempt & Taxable, Series A	22,127	01/20/17	To fund new construction, renovation and additions across university system campuses and refund ASU Energy Efficiency Capital Leases.
Revenue Financing System Commercial Paper Notes Tax-Exempt & Taxable, Series 2017A & 2017B	374,735	01/31/17	To reimburse commercial paper and fund new projects in progress.

Concluded on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2016 (concluded)

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
UNIVERSITY OF NORTH TEXAS			
Revenue Financing System Commercial Paper Program, Series B	5,200	02/02/17	To fund construction and renovation costs of various projects.
Revenue Financing System Refunding Bonds, Series 2017A	7,600	01/31/17	To refund outstanding commercial paper.
Revenue Financing System Refunding Bonds, Series 2017B	14,300	01/31/17	To refund outstanding commercial paper.
TEXAS STATE UNIVERSITY SYSTEM			
Texas State University System Revenue Bonds, 2017A	401,039	01/31/17	To finance new construction, expansion and renovations.
Texas State University System Revenue Bonds, 2017B	30,800	01/31/17	To finance student center renovations.
TEXAS A&M UNIVERSITY SYSTEM			
Revenue Financing System Taxable Commercial Paper Notes	32,014	12/14/16	To provide interim financing for construction projects.
Revenue Financing System Commercial Paper Notes	20,000	12/20/16	To provide interim financing for construction projects.
Revenue Financing System Taxable Commercial Paper Notes	5,000	01/18/17	To provide interim financing for construction projects.
Revenue Financing System Bonds, Taxable Series 2017A	388,705	01/31/17	To provide construction funds for eligible projects, refund portion of outstanding Taxable Commercial Paper Notes and pay the costs of issuance.
Permanent University Fund Commercial Paper Notes	30,000	02/03/17	To provide interim financing for construction projects.
UNIVERSITY OF TEXAS SYSTEM			
Permanent University Fund Bonds, Series 2016B	272,350	09/01/16	To refund principal amount of Permanent University Fund Commercial Paper Notes, Series A and to pay the costs of issuance.
Revenue Financing System Bonds, Series 2016F	376,030	09/01/16	To refund principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance.
Revenue Financing System Bonds, Series 2016G	250,000	09/15/16	To refund principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance.
Revenue Financing System Taxable Commercial Paper Notes, Series B	45,000	09/22/16	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Taxable Commercial Paper Notes, Series B	50,000	10/21/16	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Refunding Bonds, Series 2016H	233,350	11/17/16	To refund principal amount of Revenue Financing System Bonds Series 2006D and Series 2006F and to pay the costs of issuance.
Revenue Financing System Taxable Commercial Paper Notes, Series B	20,000	11/22/16	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Refunding Bonds, Series 2016I	184,725	11/30/16	To refund principal amount of Revenue Financing System Bonds Series 2006E, to advance refund principal amount of Revenue Financing System Bonds Series 2010A and to pay the costs of issuance.
Revenue Financing System Taxable Commercial Paper Notes, Series B	58,000	12/22/16	To finance a variety of capital projects and equipment purchases at various University of Texas institutions.
Revenue Financing System Bonds, Series 2016J	306,925	01/04/17	To finance a variety of capital projects and to pay the costs of issuance.
Revenue Financing System Commercial Paper Notes, Series B	50,000	01/20/17	To finance a variety of capital projects and equipment purchases at various University of Texas institutions.
Total Bond and Commercial Paper Issued/Refunded	$ 8,205,800		

Note 17

Risk Management

The state of Texas is exposed to various risks of loss related to property, general and employer liability, net income and personnel. The state of Texas and its employees are covered by numerous immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance or a combination of these risk financing techniques.

Estimates of liabilities for incurred but not reported claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claims adjustment expenditures/expenses. In addition, estimated recoveries on unsettled claims, such as salvage and subrogation, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Unallocated claim adjustment expenditures/expenses are not included in the liability for claims and judgments.

There were no significant reductions in insurance coverage in the past year. Also, in the past three years, settlements have not exceeded insurance coverage.

Property and Liability

The Texas Labor Code, Chapter 412, states that the State Office of Risk Management (SORM) shall operate as a full-service risk and insurance manager for state agencies and shall administer programs to reduce property and liability losses, including workers' compensation losses.

SORM administers the statewide workers' compensation program. The state does not carry commercial insurance for workers' compensation, but instead, uses the general revenue fund to account for its risk financing activities. Certain agencies are exempt from the SORM program or elect to purchase additional insurance coverage outside of the program. The University of Texas System (UT), Texas A&M University System (A&M) and Texas Department of Transportation administer separate self-insured workers' compensation programs.

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All state employees not covered by insurance plans provided by UT and A&M are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS). Public school employees and their dependents are covered by the Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS). Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

Texas Employees Group Benefits Program

Claims for health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations (DHMO) contracts.

University of Texas System and Texas A&M University System

UT and A&M provide health insurance, dental insurance, vision insurance, life insurance, AD&D, long-term disability, short-term disability, long-term care and flexible-spending account coverages to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully insured arrangements.

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers employees of participating entities the option of three preferred provider organization plans and also offers employees of certain areas the option of choosing coverage under an HMO plan. In fiscal 2016, 1,101 entities participated in the program. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The table below presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal years ended Aug. 31, 2015 and Aug. 31, 2016. Claims and judgment amounts presented in Note 5 are also included in the table below.

Changes in Claims Liability Balances

(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
2016	$ 820,194	$ 3,832,798	$ 3,781,756	$ 871,236
2015	$ 825,181	$ 3,504,388	$ 3,509,375	$ 820,194

Of the fiscal 2016 claims liability ending balance, $275.3 million relates to long-term claims liabilities, which are reported in Note 5. $690.2 million relates to the state's health, life and dental insurance programs, and the remainder to miscellaneous claims and judgments, all of which are reported as accounts payable.

Note 18

Contested Taxes

The state may assess a claim against one or multiple taxpayers for a tax liability. Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. As of Aug. 31, 2016, there was an estimated $1.3 billion of assessments filed that are currently in the redetermination hearings process. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements.

Note 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of

a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Other component units are discretely presented. None of the discrete component units for the state of Texas meet the criteria for major component unit presentation and those presented are for informational purposes of interested parties. The component units are reported for the fiscal year ended Aug. 31, 2016 unless indicated otherwise.

Blended Component Units

The state is financially accountable for the following legally separate entities. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state, or the component units' debts are expected to be repaid entirely or almost entirely with the resources of the state. The component units' financial data is blended in the appropriate funds within the financial statements.

Employees Retirement System of Texas (ERS) is a legally separate entity established by the Legislature to administer benefits for officers and employees of the state. ERS is governed by a six-member board of trustees. The six-member board is composed of three elected members and three members who are appointed respectively by the Governor, the Speaker of the Texas House of Representatives, and the Chief Justice of the Supreme Court of Texas. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Trust Company) is a legally separate entity established by the Legislature. The Texas Comptroller of Public Accounts is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller's office direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Trust Company at 208 E. 10th St., 4th Floor, Austin, Texas 78701.

Alamo Complex Management (ACM) is a legally separate entity established to operate exclusively for the benefit of The Alamo Endowment, a discretely presented component unit of the Texas General Land Office (GLO). ACM has contracted with The Alamo Endowment for the preservation, management, education, maintenance, operation and restoration of the Alamo Complex. The GLO appoints the voting majority of the ACM. GLO is able to impose its will on ACM through its ability to remove board members at will, its ability to modify or approve the budget of ACM, its ability to modify or approve the rates or fees affecting revenues of ACM, its ability to veto, overrule or modify the decisions of ACM's governing body, its ability to appoint, hire, reassign or dismiss those persons responsible for ACM's day-to-day operations, and its ability to unilaterally abolish ACM by ordering ACM to cease operations. ACM is reported for the fiscal year ended Jun. 30, 2016. Information about ACM may be obtained by contacting GLO at 1700 N. Congress Ave. Austin, TX 78701.

Grand Parkway Association (GPA) is a legally separate entity established to facilitate the efficient development of the city of Houston's third outer highway loop to serve the regional mobility needs of the metropolitan Houston area. The Texas Transportation Commission, which is the governing body of the Texas Department of Transportation (TxDOT), appoints the voting majority of the GPA's governing board, and has the ability to remove appointed board members at will. Separate financial statements may be obtained by contacting

the GPA at 4544 Post Oak Place, Suite 222, Houston, Texas 77027. GPA was dissolved on Aug. 25, 2016.

Texas Private Activity Bond Surface Transportation Corporation (TxPABST) is a legally separate entity that acts on behalf of TxDOT in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements (CDA) entered into by TxDOT. Bonds issued by TxPABST are not legal obligations of the state and are payable solely from payments received by or on behalf of a CDA developer. The Texas Transportation Commission appoints the voting majority of TxPABST's governing board, and has the ability to remove appointed board members at will. TxPABST does not have any financial activity, as its sole purpose is to issue debt on behalf of TxDOT. TxPABST does not issue separate financial statements. Information about TxPABST may be obtained by contacting TxPABST at 125 East 11th Street, Austin, Texas 78701.

Grand Parkway Transportation Corporation (GPTC) is a legally separate entity that acts on behalf of TxDOT in the promotion and development of the Grand Parkway project by issuing bonds and entering into CDAs with developers for the design and construction of several segments of the Grand Parkway project. The Texas Transportation Commission appoints the voting majority of GPTC's governing board, and has the ability to remove appointed board members at will. The financial activity of GPTC is reported in the financial statements of TxDOT. Information about GPTC may be obtained by contacting GPTC at 125 East 11th Street, Austin, Texas 78701.

Windham School District (WSD) is a legally separate entity that provides education to inmates within the Texas Department of Criminal Justice. The Texas Board of Criminal Justice serves as the board of trustees for the WSD. The primary government is able to impose its will on the WSD through its ability to modify or approve the budget of the WSD. WSD's entire debt is covered by the state of Texas through appropriations, and the state is liable for any and all outstanding debt. WSD does not issue separate financial statements. Information about WSD may be obtained by contacting the Texas Department of Criminal Justice at P.O. Box 13034, Austin, Texas 78711.

Friends of the Texas Historical Commission (Friends) is a legally separate entity whose sole purpose is to support the activities of the Texas Historical Commission (THC). Friends is reported as a component unit due to it being closely related to the primary government. The THC provides office space to Friends. In addition, the staff of Friends participates in programs sponsored by THC. Separate financial statements may be obtained by contacting Friends at P.O. Box 13497, Austin, Texas 78711.

Texas Tech Foundation Inc. (TTF) is a legally separate entity established to financially support and serve the fundraising needs of Texas Tech University System (TTUS). The governing board of TTF is appointed by the TTUS board of regents. The board of regents has the ability to impose its will on TTF through its ability to veto, override, or modify the decisions of TTF and its ability to modify or approve the budget of TTF. Separate financial statements may be obtained by contacting TTF at P.O. Box 41102, Lubbock, Texas 79409.

Texas Tech Physician Associates (TTPA) is a legally separate entity established for the sole purpose of, and is operated exclusively for, the benefit of the Texas Tech University Health Science Center (TTUHSC) and TTUHSC at El Paso. The nine-member governing board of TTPA is appointed by TTUHSC. TTUHSC controls all financial and operational transactions of TTPA, and has the ability to remove board members at will. Separate financial statements may be obtained by contacting TTPA at Provider Payor Relations, 3601 4th Street, Lubbock, Texas 79430.

The Angelo State University Foundation (ASUF) is a legally separate nonprofit organization created exclusively to provide financial assistance to Angelo State University (ASU) primarily from gifts and earnings on endowed funds. There is no appointment of board members. The Texas Tech University System Chancellor, Angelo State University President, Angelo Faculty Senate president and ASU Chief Financial officer are non-voting ex-officio members on the Board of Directors. ASUF is closely related to ASU. Failure to include the financial information of ASUF would result in misleading financial statements. Separate financial statements may be obtained by contacting the Angelo State University Foundation at 2601 W. Ave N, San Angelo, TX 76909.

Texas State University Research Foundation (TSURF) is a legally separate entity established to support the mission of Texas State University and its objectives of promoting higher education, conducting research, providing public service and assisting in economic development in Texas. The key business officers of Texas State University compose the entirety of TSURF's officers and directors. Texas State University is able to impose its will on TSURF through its ability to remove board members at will, its ability to modify or approve the budget of TSURF, its ability to modify or approve the rates or fees affecting revenues of TSURF and its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of TSURF. TSURF is reported for the fiscal year ended Feb. 28, 2016. Separate financial statements may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office, 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Harold M. Freeman Educational Foundation (Freeman Foundation) is a legally separate entity formed through a trust to make the use of the Freeman Ranch available exclusively to Texas State University. The Freeman Ranch is used and operated solely for farm, ranch and game management, education, and research purposes in connection with the educational activities of Texas State University. There is no formal governing board for the Freeman Foundation. Texas State University acts as an active co-trustee to operate the ranch. Frost Bank operates as an inactive trustee to ensure the provisions of the trust are followed. Based on the Freeman Foundation being closely related to Texas State University, the Freeman Foundation is included as a blended component unit. Separate financial statements are not issued by the Freeman Foundation. Information about the Freeman Foundation may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office, 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Texas A&M Research Foundation (TAMRF) is a legally separate entity established to facilitate research and development within the Texas A&M University System (A&M). The A&M board of regents appoints the voting majority of TAMRF, and can impose its will through its ability to remove appointed board members at will. A&M can also impose its will through its ability to modify or approve the budget of TAMRF. Separate financial statements may be obtained by contacting TAMRF at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas 77845.

Southwestern Health Systems Inc. (SHSI) is a legally separate entity established to support the University of Texas Southwestern Medical Center (UTSWMC). Its four-member governing board is appointed by the UTSWMC. UTSWMC has the ability to impose its will on SHSI through its ability to remove appointed board members at will, its ability to modify or approve the budget of SHSI and its ability to modify or approve rates or fees affecting revenues of SHSI. Separate financial statements may be obtained by contacting SHSI at 5323 Harry Hines Boulevard, Dallas, Texas 75390.

Southwestern Moncrief Cancer Center (SW Moncrief) is a legally separate entity established to support the UTSWMC. Its four-member governing board is appointed by the president of UTSWMC. UTSWMC has the ability to impose its will on SW Moncrief through its ability to remove appointed board members at will, its ability to modify or approve the budget of SW Moncrief and its ability to modify or approve rates or fees affecting revenues of SW Moncrief. Separate financial statements may be obtained by contacting SW Moncrief at 400 West Magnolia Avenue, Fort Worth, Texas 76104.

Moncrief Cancer Foundation (Moncrief) is a legally separate entity established to support the UTSWMC. Its six-member governing board is appointed by the president of UTSWMC. UTSWMC has the ability to impose its will on Moncrief through its ability to remove appointed board members at will, its ability to modify or approve the budget of Moncrief and its ability to modify or approve rates or fees affecting revenues of Moncrief. Separate financial statements may be obtained by contacting Moncrief at 5323 Harry Hines Boulevard, Dallas, Texas 75390.

St. Paul Medical Foundation (SPMF) is a legally separate nonprofit organization created exclusively to support the advancement of patient care and research activities of the programs and facilities at St. Paul Hospital. There is no appointment of board members. The president of the St. Paul Hospital and the president of UTSWMC compose a majority of the board. SPMF is closely related to the University of Texas System. Failure to include the financial information of the SPMF would result in misleading financial statements. The SPMF is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting the SPMF at 5909 Harry Hines Boulevard, Dallas, Texas 75390.

U.T. Southwestern Accountable Care Network (UTSACN) is a legally separate entity established to support the UTSWMC. Its nine-member governing board is appointed by SHSI. SHSI has the ability to impose its will on UTSACN through its ability to remove appointed board members at will and its ability to appoint, hire, reassign or dismiss those responsible for the UTSACN's day-to-day operations. Separate financial statements may be obtained by contacting UTSACN at 5323 Harry Hines Boulevard, Dallas, Texas 75390.

University of Texas Medical Branch Healthcare Systems Inc. (Healthcare Systems) is a legally separate entity established to support the University of Texas Medical Branch at Galveston (UTMB). Its eight-member governing board is appointed by the UTMB. UTMB has the ability to impose its will on Healthcare Systems through its ability to remove appointed board members, its ability to modify the budget of Healthcare Systems, its ability to appoint, hire, reassign or dismiss those responsible for Healthcare Systems' day-to-day operations and its ability to unilaterally abolish Healthcare Systems. Separate financial statements may be obtained by contacting Healthcare Systems at 301 University Boulevard, Galveston, Texas 77555.

University Medical Branch Student Book Store Inc. (Book Store) is a legally separate entity established to operate the book store for UTMB. Its five-member governing board is appointed by UTMB. UTMB has the ability to impose its will through its ability to remove appointed board members at will and its ability to appoint, hire, reassign or dismiss those responsible for the Book Store's day-to-day operations. The Book Store is reported for the fiscal year ended Jun. 30, 2016. Separate financial statements may be obtained by contacting the Book Store at 301 University Boulevard, Galveston, Texas 77555.

Medical Branch Innovations, Inc., (MBII) is a newly blended entity beginning in fiscal 2016. MBII is blended rather than discretely presented because it operates exclusively in support of the education, clini-

cal, and research missions of UTMB. Its three-member board is appointed by UTMB. Separate financial statements may be obtained by contacting MBII at 301 University Boulevard, Galveston, Texas 77555.

University of Texas Physicians (UT Physicians) is a legally separate entity established to provide management services for the physician practice plan at the University of Texas Health Science Center at Houston (UTHSCH). Its five-member governing board is appointed by UTHSCH. UTHSCH has the ability to impose its will on UT Physicians through its ability to modify or approve the budget of UT Physicians, its ability to modify or approve rates or fees affecting revenues of UT Physicians and its ability to appoint, hire, reassign or dismiss those responsible for UT Physicians' day-to-day operations. Separate financial statements may be obtained by contacting UT Physicians at 6431 Fannin Street, Suite JJL 475, Houston, Texas 77030.

University of Texas System Medical Foundation (Medical Foundation) is a legally separate entity established to support the medical residency programs at UTHSCH. Its three-member governing board is appointed by the UTHSCH. UTHSCH has the ability to impose its will on the Medical Foundation through its ability to modify or approve the budget of the Medical Foundation and its ability to appoint, hire, reassign or dismiss those responsible for the Medical Foundation's day-to-day operations. Separate financial statements may be obtained by contacting the Medical Foundation at 6431 Fannin, Suite JJL 310, Houston, Texas 77030.

University Physicians Group (UPG) is a legally separate entity established to provide health care education and research activity to the University of Texas Health Science Center at San Antonio (UTHSCSA). Its five-member governing board consists of the dean of the School of Medicine and four members elected by the practice plan (physicians) at UTHSCSA. UTHSCSA has the ability to remove board members at will, the ability to modify or approve the budget of UPG, the ability to veto, overrule or modify the decisions of UPG's board, the ability to appoint, hire, reassign or dismiss those responsible for UPG's day-to-day operations and the ability to unilaterally abolish UPG. Separate financial statements may be obtained by contacting UPG at 6126 Wurzbach Road, San Antonio, Texas 78238.

M.D. Anderson Physicians Network (MDAPN) is a legally separate entity established to support the University of Texas M.D. Anderson Cancer Center (Cancer Center). MDAPN's nine-member board is appointed by the president of the Cancer Center. The president can also remove appointed board members at will. Separate financial statements may be obtained by contacting MDAPN at 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

M.D. Anderson Services Corporation (MDASC) is a legally separate entity established to support the Cancer Center. The seven-member board is appointed by the president of the Cancer Center and the University of Texas System (UT) board of regents. The president may remove appointed board members at will. Separate financial statements may be obtained by contacting MDASC at 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

East Texas Quality Care Network (ETQCN) is a legally separate entity established to provide agency nursing services to the University of Texas Health Science Center at Tyler (UTHSCT). Its four-member governing board is appointed by UTHSCT. UTHSCT has the ability to remove board members at will, the ability to modify or approve the budget of ETQCN, the ability to modify or approve rates or fees affecting revenues of ETQCN, the ability to veto, overrule or modify the decisions of ETQCN's board, the ability to appoint, hire, reassign or dismiss those responsible for ETQCN's day-to-day operations and the ability to unilaterally abolish ETQCN. Separate financial statements may be

obtained by contacting ETQCN at 11937 US Highway 271, Tyler, Texas 75708.

University of Texas Investment Management Co. (UTIMCO) is a legally separate entity established to provide investment management services to UT. UTIMCO's nine-member board consists of three members of the UT board of regents, the chancellor of UT, three members appointed by the UT board of regents and two members appointed by the A&M board of regents. UT has the ability to impose its will through its ability to modify or approve UTIMCO's budget, its ability to modify or approve rates or fees affecting UTIMCO's revenues, its ability to veto, overrule or modify the decisions of UTIMCO's board, its ability to appoint, hire, reassign or dismiss those responsible for UTIMCO's day-to-day operations and its ability to unilaterally abolish UTIMCO. Separate financial statements may be obtained by contacting UTIMCO at 401 Congress Avenue, Suite 2800, Austin, Texas 78701.

University of Texas Fine Arts Foundation (Fine Arts) is a legally separate entity established to acquire the Suida-Manning Art Collection for the University of Texas at Austin (UT-Austin) Blanton Museum of Art. Fine Arts' three-member governing board is appointed by UT-Austin. UT-Austin has the ability to impose its will on Fine Arts through its ability to remove appointed board members at will, its ability to modify or approve Fine Arts' budget, its ability to veto, overrule or modify the decisions of Fine Arts and unilaterally abolish Fine Arts. Fine Arts is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting UT-Austin at Main Building, P.O. Box T, Austin, Texas 78713.

University of Texas Communication Foundation (UTCF) is a legally separate entity established to support the UT-Austin College of Communication. Its three-member governing board is appointed by UT-Austin. UT-Austin has the ability to impose its will on the UTCF through its ability to remove appointed board members at will, its ability to modify or approve the UTCF's budget, its ability to veto, overrule or modify the decisions of UTCF and unilaterally abolish UTCF. Separate financial statements may be obtained by contacting UT-Austin at P.O. Box 7322, Austin, Texas 78713.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the component units do not provide services entirely or almost entirely to the state nor are the component units' debts expected to be repaid entirely or almost entirely with the resources of the state. The component units' financial data is discretely presented in the component unit column of the state's government-wide financial statements. Based on an analysis performed at year end, none of the discretely presented component units met the materiality threshold for presentation; however, omission of the following discretely presented component units would result in misleading financial statements.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. TRS is governed by a nine-member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. TRS is subject to the budget approval powers of the Texas Legislature, and therefore is fiscally dependent on the state of Texas. The active employees insurance program and 403(b) administrative program are reported in the component unit column of the government-wide financial statements; whereas the employee benefit trust fund and retired employees insurance are reported in the pension and other employee benefit trust funds financial

statements. TRS has a new blended component unit, Teacher Retirement Investment Company of Texas Ltd. (TRICOT). It is a private company limited by shares in the United Kingdom that began operating in Nov. 2015. TRICOT was formed for the purpose of opening a London investment office to increase investment opportunities for the TRS portfolio. TRICOT serves the pension trust fund. Separate financial statements may be obtained by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas (State Bar) is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The annual budget for the State Bar must be reviewed and approved by the Supreme Court, thus making the State Bar fiscally dependent on the state of Texas. The State Bar is reported for the fiscal year ended May 31, 2016. Separate financial statements may be obtained by contacting the State Bar at 1414 Colorado St., Austin, Texas 78701.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Nonprofit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC provides single and multi-family loans to low and moderate income Texans. Prior to any bonds being issued by TSAHC, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

OneStar National Service Commission, Inc. and OneStar Foundation, Inc. (OneStar) are legally separate nonprofit corporations that administer the AmeriCorps*Texas program. They serve as the state's liaison to and oversee Texas' participation in OneStar programs for the Corporation for National and Community Service (a federal agency), as well as prepare a comprehensive three-year national service plan for the state. The governor appoints all members of OneStar's boards. The governor can also remove any board member at will. OneStar performs all administrative duties of the OneStar National Service Commission, Inc., as well as provides technical assistance, education, information and other support to the volunteer community. OneStar is reported for the fiscal year ended Dec. 31, 2015. The financial statements of OneStar can be obtained by contacting OneStar at 9011 Mountain Ridge Drive, Suite 100, Austin, Texas 78759.

Texas Low-Level Radioactive Waste Disposal Compact Commission (Commission) is a legally separate organization established to promote the health, safety and welfare of the citizens and environment of the states participating in the Texas Low-Level Radioactive Waste Disposal Compact (Compact), known as party states. There are currently three party states, Texas, Maine and Vermont, with Texas serving as the host party state. The mission of the Commission is to:

- Limit the number of radioactive waste disposal facilities
- Effectively, efficiently and economically manage low-level radioactive waste
- Encourage the reduction of the generation thereof

Since Texas serves as the host party state for the Compact, it is entitled to six voting members, whereas the other party states are only entitled to one voting member. The governor appoints the six members of the Commission serving on behalf of Texas. As host state, Texas has the authority to establish the disposal fees assessed at the facility for disposal of low-level radioactive waste generated in the party states. The Texas

Legislature, with the approval of the governor, also has the authority to revise the portion of the Compact pertaining to the volume of waste the host state will dispose of without the consent of the nonhost party states. The financial statements of the Commission may be obtained by contacting the Commission at 333 Guadalupe St. #3-240, Austin, Texas 78701.

Texas Prepaid Tuition Scholarship Foundation (TPTSF) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. TPTSF is a direct-support organization of the Texas Guaranteed Tuition Plan and is authorized by the Texas Education Code. TPTSF is governed by a board composed of the Comptroller, a member appointed by the governor with the advice and consent of the Senate and three members appointed jointly by the Comptroller and the member who is appointed by the governor. The Comptroller assigns and supervises employees responsible for the day-to-day operations of TPTSF. TPTSF does not issue separate financial statements. Information may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

Texas Match the Promise Foundation (TMPF) is a legally separate entity established to implement the Texas Save and Match Program, which helps families save for college by offering competitive matching scholarships and tuition grants to Texas students who participate in the Texas Tuition Promise Fund. The Comptroller appoints TMPF's governing board, and can remove appointed board members at will. The Comptroller also assigns and supervises employees responsible for the day-to-day operations of TMPF. TMPF does not issue separate financial statements. Information may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

Texas Windstorm Insurance Association (Association) is a legally separate organization established to provide an adequate market for windstorm and hail insurance in the seacoast territory of Texas and serves as an insurer of last resort. The commissioner of the Texas Department of Insurance (TDI) appoints the nine-member board of directors, and the board is responsible and accountable to the commissioner. The state of Texas has the ability to impose its will on the Association through TDI commissioner approval of rates and maximum liability limits for windstorm and hail insurance policies issued by the Association. The Association is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building A, Austin, Texas 78749.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit corporation created by the Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting the Stamping Office at 805 Las Cimas Parkway, Suite 150, Austin, Texas 78746-6526.

Texas Health Reinsurance System is a legally separate entity that reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates

and the assessment rates against reinsured health benefit plan issuers. Financial statements are presented on statutory accounting principles established by TDI, and are reported for the fiscal year ended Dec. 31, 2015. Financial statements may be obtained by contacting the Texas Health Reinsurance System, c/o Pool Administrators Inc., 628 Hebron Ave. Suite 100, Glastonbury, CT 06033

Texas Health Insurance Pool (THIP) is a legally separate entity that provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The nine-member board of directors is appointed by TDI's commissioner. TDI approves all rates and rate schedules before they are used. THIP is reported for the fiscal year ended Dec. 31, 2015. Financial statements may be obtained by contacting the THIP at P.O. Box 17463, San Antonio, Texas 78217. THIP was dissolved on Aug. 31, 2015.

Texas Property and Casualty Insurance Guaranty Association (TPCIGA) is a legally separate entity created to assess the cost of providing protection among insurers for providing a mechanism for the payment of covered claims, to avoid excessive delay in payments, to avoid financial loss to claimants or policyholders due to an insurer's impairment, and to assist in the detection and prevention of insurer insolvencies. TDI's commissioner does not appoint a simple majority of TPCIGA's governing board. TDI is unable to impose its will on TPCIGA and no financial benefit/burden relationship exists. TPCIGA is no longer reported as a component unit, but is reported here because its activity was removed from the fiscal 2016 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

Fair Access to Insurance Requirements Plan Association (FAIRPA) is a legally separate entity established to administer the Fair Access to Insurance Requirements Plan, which delivers property insurance to Texas residents in underserved areas. The 11-member governing board is appointed by TDI's commissioner. The commissioner may remove appointed board members at will. FAIRPA is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting FAIRPA at 5700 South Mopac, Building A, Austin, Texas 78749-1461.

Texas Boll Weevil Eradication Foundation Inc. (TBWEF) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is governed by 21 board members. The Texas Department of Agriculture's (TDA) commissioner appoints five of the board members. Although TDA must approve the TBWEF's budget, assessment fees and debt, a financial benefit or financial burden does not exist between the TBWEF and the primary government. Therefore, the primary government is not financially accountable for the TBWEF. However, based on the TBWEF's financial relationship with the TDA, omitting the TBWEF would result in incomplete financial statements. The TBWEF is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFA) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses, and primarily benefits the citizens of Texas. TAFA is governed by a board of directors composed of the Commissioner of Agriculture, Deputy Commissioner of Agriculture-Designee, the Director of the Institute for International Agribusiness studies at Prairie View A&M University, and nine members appointed by the Commissioner of Agriculture. The commissioner of TDA administers TAFA with the assistance of the board of directors. If there are insufficient funds to pay TAFA's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFA in an amount sufficient to pay

those obligations. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (TWRFA) is a legally separate entity created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects, and primarily benefits the citizens of Texas. A board of directors, composed of the three members of the Texas Water Development Board (TWDB), governs TWRFA. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the TWRFA operations. Prior to any bonds being issued by the TWRFA, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Appraiser Licensing and Certification Board (TALCB) is a legally separate entity statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) to serve the real estate community in Texas. The governor appoints the members of the governing board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in the presentation of incomplete financial statements. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Economic Development Corporation (TED Corp.), a legally separate nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. TED Corp.'s services primarily benefit the Texas citizenry. The board of directors is appointed by the governor. The Office of the Governor is the oversight agency for TED Corp., and has the ability to remove board members at will. The TED Corp. is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting TED Corp. at P.O. Box 684702, Austin, Texas 78768.

Texas Small Business Industrial Development Corporation (TSBIDC) is a legally separate entity and was chartered to promote economic development in the state of Texas. TSBIDC's services primarily benefit the Texas citizenry. The board of directors is appointed by the governor. The Office of the Governor is the oversight agency for TSBIDC. The Articles of Incorporation and Bylaws of TSBIDC cannot be changed without the approval of the Office of the Governor. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711. TSBIDC has been dissolved pursuant to changes made to section 489.108 of the Government Code during the 84th Regular Legislative Session.

Texas Disaster Relief Fund (TDRF), a legally separate nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. Based on TDRF's financial relationship with the Office of the Governor, omitting TDRF would result in misleading financial statements. TDRF is reported for the fiscal year ended Dec. 31, 2015. TDRF's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created for the improvement of the Texas health care system. THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is

appointed by the governor, with the advice and consent of the Senate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor declares the purposes of THSA are fulfilled or that THSA is inoperative or abandoned. THSA is reported for the fiscal year ended Sept. 30, 2015. THSA's financial statements may be obtained by contacting THSA at 221 E. 9th St., Suite 201, Austin, Texas 78701.

Beacon State Fund (BSF) is a legally separate organization established to assist the Governor's Commission for Women (GCW) to promote issues affecting the women of Texas. BSF increases public awareness through the distribution of information, media events and community outreach programs. Members of the board of trustees are appointed by the Office of the Governor or someone designated by the Office of the Governor. The Office of the Governor has fiscal oversight over BSF to ensure funds are expended properly and the public purpose is being accomplished. BSF is reported for the fiscal year ended Dec. 31, 2015. Financial statements may be obtained by contacting the GCW at P.O. Box 12428, Austin, Texas 78711.

State Agency Council (SAC) is a legally separate organization established to assist the GCW by honoring women who have made significant contributions to Texas through their work in state government. SAC also provides opportunities for professional development to its state agency representatives and supports community outreach programs consistent with the goals of GCW. The director of GCW appoints the board and has operational influence on the activities of the corporation. Financial statements for the State Agency Council may be obtained by contacting the GCW at P.O. Box 12428, Austin, Texas 78711.

Film Texas Fund (FTF) is a legally separate nonprofit organization created to support, encourage and promote the development of the film, television and multimedia industry in Texas. The Film Texas Fund is closely related to the Office of the Governor Texas Film Commission (OGTFC). However, the OGTFC is not financially accountable for FTF and FTF supports its own mission in promoting the film industry in Texas. Due to the FTF's close financial relationship with the OGTFC, omitting FTF would result in misleading financial statements. FTF is reported for the fiscal year ended Dec. 31, 2015. Financial statements for FTF may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Governor's Mansion Administration (TGMA) is a legally separate nonprofit organization established to support the financial administration of catering and facility expenses associated with the use of the official residence of the governor of the state of Texas for non-political events. TGMA is closely related to the state of Texas because the Office of the Governor provides administrative services, including accounting services, to TGMA. TGMA is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements for TGMA may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Robert G. Carr and Nona K. Carr Scholarship Foundation (Carr Foundation) is a legally separate entity established for the sole purpose of providing scholarships to students of ASU, a campus within the Texas Tech University System (TTU System). The TTU System board of regents serves as the governing board for the Carr Foundation, and has the ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of the Carr Foundation. Separate financial statements may be obtained by contacting the Carr Foundation at P.O. Box 11007C, ASU Station, San Angelo, Texas 76909.

University of North Texas Foundation (UNTF) is a legally separate entity established to raise funding for scholarships for students of the University of North Texas, as well as provide funding for the benefit of the University of North Texas. The majority

of endowments supporting the University of North Texas scholarships and other University programs are owned by the UNTF. Therefore, the UNTF is closely related to the University of North Texas, and failure to include its financial activities would lead to incomplete financial statements. Separate financial statements may be obtained by contacting the UNTF at 1155 Union Circle #311250, Denton, Texas 76203-5017.

The Alamo Endowment (TAE) is a legally separate entity established to provide resources and support for the preservation and maintenance of the Alamo Complex. The Texas General Land Office (GLO) appoints the voting majority of TAE and can impose its will through its ability to remove board members at will. GLO can also impose its will through its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of TAE. TAE was reported as a blended component unit in fiscal 2015. However, TAE does not provide services exclusively to benefit GLO. TAE is reported for the fiscal year ended Jun. 30, 2016. Separate financial statements may be obtained by contacting TAE at P.O. Box 2099, San Antonio, TX 78297.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entities.

Texas Mutual Insurance Company (Texas Mutual) operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. The governor, with the advice and consent of the Senate, appoints five of the nine members of Texas Mutual's board of directors.

Texas Title Insurance Guaranty Association (TTIGA) is a legally separate nonprofit organization created for the purpose of providing funds for the protection of holders of covered claims as defined in the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner. TTIGA was reported as a discretely presented component unit in fiscal 2015. However, TDI is unable to impose its will on TTIGA, nor does a financial benefit/burden relationship exist, therefore, TTIGA has been classified as a related organization. TTIGA's activity was removed from the fiscal 2016 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

Texas Life and Health Insurance Guaranty Association (TLHIGA) is a legally separate entity created to protect persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts due to the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints TLHIGA's nine-member board of directors. TLHIGA was reported as a discretely presented component unit in fiscal 2015. However, TDI is unable to impose its will in a way that significantly influences the programs, projects, activities or level of services performed or provided by TLHIGA, nor does a financial benefit/burden relationship exist, therefore, TTIGA has been classified as a related organization. TLHIGA's activity was removed from the fiscal 2016 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

Midwestern State University Charitable Trust (Trust) is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a board of trustees of no less than three members. This board appoints individuals to fill vacancies on the board as they occur with the approval of the Midwestern State University board of regents.

The Trust's board of trustees serves under the direction of the board of regents, which has the power by majority vote to appoint or remove any or all of the trustees.

Charter School Finance Corporation is a non-profit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency.

Texas State University System Foundation Inc. (TSUSF) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The TSUSF provides funds for student scholarships and faculty awards and assists the chancellor in performing his/her duties. The board of directors is comprised of all members of the Texas State University System board of regents, which is appointed by the governor.

Operation Game Thief Committee was established to administer the Operation Game Thief Program. The program facilitates the apprehension and prosecution of persons who violate Texas laws intended to protect the state's natural or cultural resources and the public safety of persons using those natural or cultural resources. The program also pays rewards and death benefits authorized by Texas statute. The Texas Parks and Wildlife Department's executive director appoints the members of the committee.

Parks and Wildlife Foundation (PWF) is a legally separate nonprofit organization established to manage and conserve the natural and cultural resources of Texas. The PWF provides private support to the Texas Parks and Wildlife Department (Department), but the Department is not financially accountable for the PWF, nor is the PWF fiscally dependent on the Department. The PWF is governed by a group of trustees, the majority of whom are appointed by the chairman of the Department.

The College for All Texans (CFAT) Foundation is a Texas non-profit organization that is organized to support The Higher Education Coordinating Board (THECB) program initiatives. THECB is unable to impose its will on CFAT and there is no financial benefit or burden relationship between THECB and CFAT.

River Authorities are political subdivisions created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution for irrigation, power and all other useful purposes of storm waters, flood waters and the waters of rivers and streams; the reclamation and irrigation of arid, semiarid and other lands needing irrigation; the reclamation of drainage of overflowed lands and other lands needing drainage; the conservation and development of forests, water and hydro-electric power; the navigation of inland and coastal waters; and the preservation and conservation of all such natural resources of the state. The state of Texas appoints the voting majority for the following 16 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches River Municipal Water Authority

Note 20

Deficit Fund Balances/Net Position of Individual Nonmajor Funds

Proprietary Funds

The Texas Prepaid Tuition Plans reported a deficit of $550.2 million. The deficit is due to the difference between the present value of actual and projected contract benefit payments and actual and projected contributions from account holders and investment earnings on those contributions to the Texas Guaranteed Tuition Plan (Plan). The Plan was closed to new enrollment in 2003 when tuition was deregulated. Over the life of the Plan, actual tuition and required fees for Texas public four year colleges and universities grew at a higher percentage rate than the Plan's investment return.

The **Grand Parkway Transportation Corporation (GPTC)**, a blended component unit of the Texas Department of Transportation, reported a deficit of $23.3 million. The deficit is primarily due to the total expense exceeding the revenue by $39.9 million. The large expense in fiscal 2016 included $62.4 million of amortization and $46.5 million of interest. Interest was capitalized as intangible assets prior to substantial completion of the five segments of the System in March 2016. Starting April 2016, interest was reported as expense. Amortization of intangible assets began in fiscal 2016.

Note 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total $15.1 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the general consumer inflation rate, the profitability of the tobacco companies and any other court-ordered factors. A revenue accrual of $300.1 million is based on the payments received in December 2016. Tobacco settlement revenues were $485.5 million in fiscal 2015 and $480.2 million in fiscal 2016. Cumulative actual tobacco settlement revenues as of fiscal 2016 were $9.6 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $2.5 billion on investments available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported are presented in the table below.

Donor-Restricted Endowments
(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	$ 2,439,841	Expendable
Term Endowments	40,303	Expendable
	$ 2,480,144	

Net appreciation on investments held by discrete component unit donor-restricted endowments is negative at year-end and is therefore not included in the table.

True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. Expendable funds are those funds that

may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Non-expendable funds are those required to be retained in perpetuity.

The majority of the state's endowments are the results of donations made to institutions of higher education. The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

Note 23

Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, as reported on the balance sheet – governmental funds, are detailed by tax type in the tables to the right.

Texas franchise tax receivables represent balances due as of Aug. 31, 2016, for business-type activity that occurred in calendar year 2015. The franchise tax payments were due May 16, 2016; however, taxpayers were allowed to extend the filing date to November 2016.

Franchise taxes are considered earned when the business-type activity occurs. There are no required quarterly estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight months of calendar year 2016 is not due until May 2017. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.

Taxes Receivable by Tax Type

August 31, 2016 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	$ 1,532,469
Motor Vehicle and Manufactured Housing	78,634
Motor Fuels	214
Oil and Natural Gas Production	198,482
Franchise	177,426
Insurance Occupation	259,289
Cigarette and Tobacco	24,160
Other	224,133
Total Taxes Receivable*	$ 2,494,807
Liquidity Characteristics:	
Current Taxes Receivable	$ 2,460,183
Noncurrent Taxes Receivable	34,624
Total Taxes Receivable	$ 2,494,807
* Total Taxes Receivable General Fund	$ 2,494,807
Motor Fuel Taxes Receivable in Other Governmental Funds:	
Current Taxes Receivable:	
State Highway Fund	228,717
Nonmajor Governmental Funds	76,454
Noncurrent Taxes Receivable:	
State Highway Fund	13
Nonmajor Governmental Funds	4
Total Taxes Receivable – Balance Sheet – Governmental Funds	$ 2,799,995

Tax Refunds Payable by Tax Type

August 31, 2016 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	$ 142,955
Franchise	662,829
Total Tax Refunds Payable	$ 805,784

Note 24

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. COBRA members are allowed to remain in their eligible insurance program for 18 months, or 29 months

if disabled. Covered dependents are eligible to remain in the program for 36 months. COBRA plan administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2016, the cost to the state was approximately $28.1 million for 2,944 COBRA participants.

For the fully-insured health maintenance organization health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Health Care Related Termination Benefits

Under Texas Government Code 659.255, some agencies may offer voluntary or involuntary termination payments for separation. In addition to termination payments, agencies may also offer career counseling and outplacement services.

Note 25

Segment Information

Primary Government

A segment is a separately identifiable activity reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. Segment disclosure is not required for an activity whose only outstanding debt is conduit debt or if an individual fund is both a segment and reported as a major fund. Therefore, the following programs have met the requirements for disclosure. These programs were funded by the issuance of revenue bonds, which require revenues, expenses, gains, losses, assets and liabilities to be separately accounted for:

The Single Family Bond Program was created to originate below-market rate loans for eligible low- and moderate-income residents who are purchasing a residence.

The Residential Mortgage Revenue Bond Program (RMRB) was created to purchase single-family loans, while proceeds from the remaining RMRB bond issues are used to purchase pass-through certificates created through the origination of single-family loans.

The Collateralized Home Mortgage Revenue Bond Program was created to purchase pass-through certificates created through the funding of loans made to finance the purchase by eligible borrowers of new and existing single-family residences in the state.

Condensed Statement of Net Position

August 31, 2016 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
ASSETS			
Current Restricted Assets	$ 42,172	$ 25,924	$ 80
Noncurrent Restricted Assets	400,778	269,164	3,414
Total Assets	442,950	295,088	3,494
Deferred Outflows of Resources	15,096		
LIABILITIES			
Current Liabilities	6,515	5,925	5
Noncurrent Liabilities	351,861	178,956	1,715
Total Liabilities	358,376	184,881	1,720
NET POSITION			
Restricted	99,670	110,207	1,774
Total Net Position	$ 99,670	$ 110,207	$ 1,774

Condensed Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
OPERATING REVENUES (EXPENSES)			
Interest and Investment Income	$ 19,995	$ 9,647	$ 252
Net Decrease in Fair Value	(3,267)	(389)	(78)
Other Operating Revenues	213		
Operating Expenses	(15,865)	(7,545)	(144)
Operating Income	1,076	1,713	30
NONOPERATING REVENUES (EXPENSES)			
Transfer In (Out)	(394)	6,376	
Changes in Net Position	682	8,089	30
Net Position, September 1, 2015	98,988	102,118	1,744
Net Position, August 31, 2016	$ 99,670	$ 110,207	$ 1,774

Condensed Statement of Cash Flows

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
NET CASH PROVIDED (USED) BY:			
Operating Activities	$ (3,077)	$ (5,406)	$ (1)
Noncapital Financing Activities	(25,846)	(36,197)	(1,066)
Investing Activities	35,260	46,069	1,058
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,337	4,466	(9)
Cash and Cash Equivalents, September 1, 2015	34,040	20,542	71
Cash and Cash Equivalents, August 31, 2016	$ 40,377	$ 25,008	$ 62

Note 26

Service Concession Arrangements

The state of Texas has eight arrangements that fit the criteria of a service concession arrangement (SCA). As the transferor in these arrangements, the state retains ownership rights and title to all assets associated with an SCA. All of these arrangements were entered into by the Texas Department of Transportation (TxDOT). The fees the operator collects are in the form of tolls. Project maintenance and operations will transfer back to TxDOT once the arrangements have ended.

A general description of each SCA, including status, term and duration, is presented in the table on the following page.

These arrangements were entered to:

- improve mobility by expanding existing road capacity and introducing managed toll lanes, traditional toll lanes and other strategies aimed at reducing traffic congestion;
- enable the state to deliver these projects faster than would be possible using traditional funding sources; and
- shift the majority of the financial risk to the operator.

In the year an SCA project opens for traffic, TxDOT records the capital assets acquired under the SCA at their fair value with a corresponding entry to deferred inflows of resources. The deferred inflows of resources balance will then be reduced and revenue will be recognized in a systematic manner over the term of the arrangement, beginning when the infrastructure assets are placed into operation. Up-front concession payments received are recorded as assets (cash and cash equivalents) with an offset to deferred inflows of resources. Revenue is recognized and the deferred inflows of resources are reduced in a systematic and rational manner over the term of the arrangement. SCA amounts reported as of Aug. 31, 2016, are presented in the tables on the following page.

Service Concession Arrangements

August 31, 2016

Arrangement Name	Construction Status	Term of Concession	Concession Dates Begin	Concession Dates End
IH 10 "Katy Managed Lanes"	Complete	46 years	2010	2055*
SH 130 Segments 5 and 6	Complete	50 years	2012	2062
SH 121 Concession	Complete	50 years	2009	2059
North Tarrant Exp Seg 1 and 2-West	Complete	52 years	2009	2061
North Tarrant Exp Seg 3A and 3B	Under Construction	52 years	2009	2061
LBJ/IH-635 Managed Lanes	Complete	52 years	2009	2061
Grand Parkway Seg D, E, F1, F2, G	Complete	40 years	2013	2053*
SH 288	Under Construction	52 years	2016	2068

* Estimated. Concession period extends until Harris County/Grand Parkway Transportation Corporation is fully reimbursed for cost of construction and debt service.

Service Concession Arrangements – Amounts Recognized in Financial Statements – Governmental Activities

August 31, 2016 (Amounts in Thousands)

Arrangement Name	Cash and Cash Equivalents*	Capital Assets	Deferred Inflows of Resources**
IH 10 "Katy Managed Lanes"	$	$	$ 211,956
SH 130 Segments 5 and 6	112,365	1,438,396	1,406,830
SH 121 Concession	698,059	1,336,604	3,256,420
North Tarrant Exp Seg 1 and 2-West		2,393,315	1,647,531
North Tarrant Exp Seg 3A and 3B		309,656	
LBJ/IH-635 Managed Lanes		2,659,571	2,029,072
Grand Parkway Seg D, E, F1, F2, G		2,397,288	2,308,677
SH 288	25,479	4,741	25,479
	$ 835,903	$ 10,539,571	$ 10,885,965

** The deferred inflows of resources balance represents unamortized up-front payments and capital improvements TxDOT received under these eight SCAs.

In some cases, TxDOT is obligated to make contributions of public funds to the SCA project during the construction period for portions of the project's design, construction or right-of-way costs. Outlays of TxDOT funds related to SCA projects are recorded as additions to construction in progress as they are incurred.

The Grand Parkway Transportation Corporation (GPTC) is a blended component unit of TxDOT. In fiscal 2013, GPTC and TxDOT entered into an arrangement that fits the criteria of an SCA. Pursuant to this arrangement, GPTC is responsible for the design, construction, financing and operation of Segments D (Harris County) and E, F1, F2 and G of the Grand Parkway (State Highway 99) for a period until the bonds or other debt secured is fully repaid. GPTC will be entitled to all toll revenues during the operations period. At the end of the arrangement, operation of the roadway will be transferred to TxDOT.

The objective of this arrangement is to deliver this project in partnership with TxDOT more quickly than would be possible under a traditional structure.

As of Aug. 31, 2016, the Texas Transportation Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling $251 million and $15.4 billion, respectively. Payments of these amounts are made subject to executed financial assistance agreements between TxDOT and the applicable public or private entity. Of the outstanding toll equity loan commitment, $5.9 billion is related to a toll equity loan agreement (TELA) with the North Texas Tollway Authority and $9.5 billion is related to a TELA with the GPTC. Under the TELA, TxDOT has agreed to lend a negotiated amount each year should revenues of the projects be insufficient to cover operations and maintenance, including debt service. The GPTC funds are to be used to pay for certain costs relating to the development, construction, operation, maintenance and financing of Segments D (Harris County) and E, F1, F2 and G (State Highway 99) and the predevelopment of possible extensions or expansions of the Grand Parkway. The maximum amount of money that can be paid by TxDOT to GPTC under the TELA is equal to the aggregate amount of costs that are authorized under

Article VIII, Section 7a of the Texas Constitution and Section 222.103 of the Texas Transportation Code, i.e. the "Eligible Costs". As of Aug. 31, 2016, no draw-downs of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of $2.3 billion for its costs of design, construction and right-of-way acquisition for the year ended Aug. 31, 2016. This amount is reported as business-type activities.

Note 27

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2016, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements, bond refunding, pensions, the acquisition of Texas Wesleyan University Law School by Texas A&M University, and various types of revenues earned but not available at the fiscal year end.

The table to the right presents the balances of deferred outflows of resources and deferred inflows of resources as of Aug. 31, 2016 for governmental activities, business-type activities and governmental funds.

Deferred outflows of resources in business-type activities of $705.6 million was composed of $702.4 million related to hedging derivatives in a liability position and $3.2 million related to unamortized interest rate lock termination payment. The interest rate lock termination payment was made by the University of Texas in connection with its 2016A bond issuance. The hedging derivative liability of $702.4 million is disclosed in Note 7.

Deferred Outflows of Resources and Deferred Inflows of Resources

August 31, 2016 (Amounts in Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Government-wide Financial Statements		
Governmental Activities		
Bond/Debt refunding	$ 218,821	$
SCAs (Note 26)		10,885,965
Pensions (Note 9)	5,964,443	6,109,045
Total	$ 6,183,264	$ 16,995,010
Business-Type Activities		
Bond/Debt refunding	$ 125,326	$ 7,432
Derivatives (Note 7)	705,586 *	
Pensions (Note 9)	796,254	586,171
Government Acquisitions	27,297	
Total	$ 1,654,463	$ 593,603
Fund Financial Statements		
Governmental Funds		
Revenue Earned But Not Available	$	$ 584,968
Total	$ 0	$ 584,968

* The $705,586,028.72 of deferred outflows of resources is composed of $702,350,517.89 related to hedging derivatives in a liability and $3,235,510.85 related to unamortized interest rate lock termination payment.

Deferred outflows of resources in business-type activities of $27.3 million represent the unamortized balance of the excess consideration provided by Texas A&M University over the net position acquired in the acquisition of Texas Wesleyan University Law School. Texas A&M University and Texas Wesleyan University Law School are not in the same financial reporting entity. The objective of the acquisition of Texas Wesleyan University Law School is to enhance the academic ranking of Texas A&M University by having a law school. The acquisition was finalized on Aug. 13, 2013, with no contingent consideration arrangements. The total consideration provided was $53.9 million, net position acquired was $14.7 million, and amortization for fiscal 2016 was $3.9 million.

Deferred inflows of resources in governmental activities of $10.9 billion were related to service concession

arrangements (SCA) entered into by the Texas Department of Transportation (TxDOT) with non-state entities. This amount reflects the unamortized balance of up-front concession payments received and capital improvements acquired from these entities. Details of the state's SCAS are disclosed in Note 26.

Deferred outflows of resources of $218.8 million in governmental activities were related to losses TxDOT and Texas Public Finance Authority incurred in bond refunding transactions. TxDOT and several universities also had bond refunding transactions in fiscal 2016 in business-type activities for $7.4 million in deferred inflows of resources related to gains and $125.3 million in deferred outflows of resources related to losses, respectively.

Deferred inflows of resources of $585 million in governmental funds were related to various types of revenues earned but not available within 60 days of fiscal year end.

The State implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* in fiscal 2015. In fiscal 2016, the state reported $6 billion of deferred outflows of resources and $6.1 billion of deferred inflows of resources related to pensions in governmental activities. The state also reported $796.3 million of deferred outflows of resources and $586.2 million of deferred inflows of resources related to pensions in business-type activities. Details of the state's pensions are disclosed in Note 9.

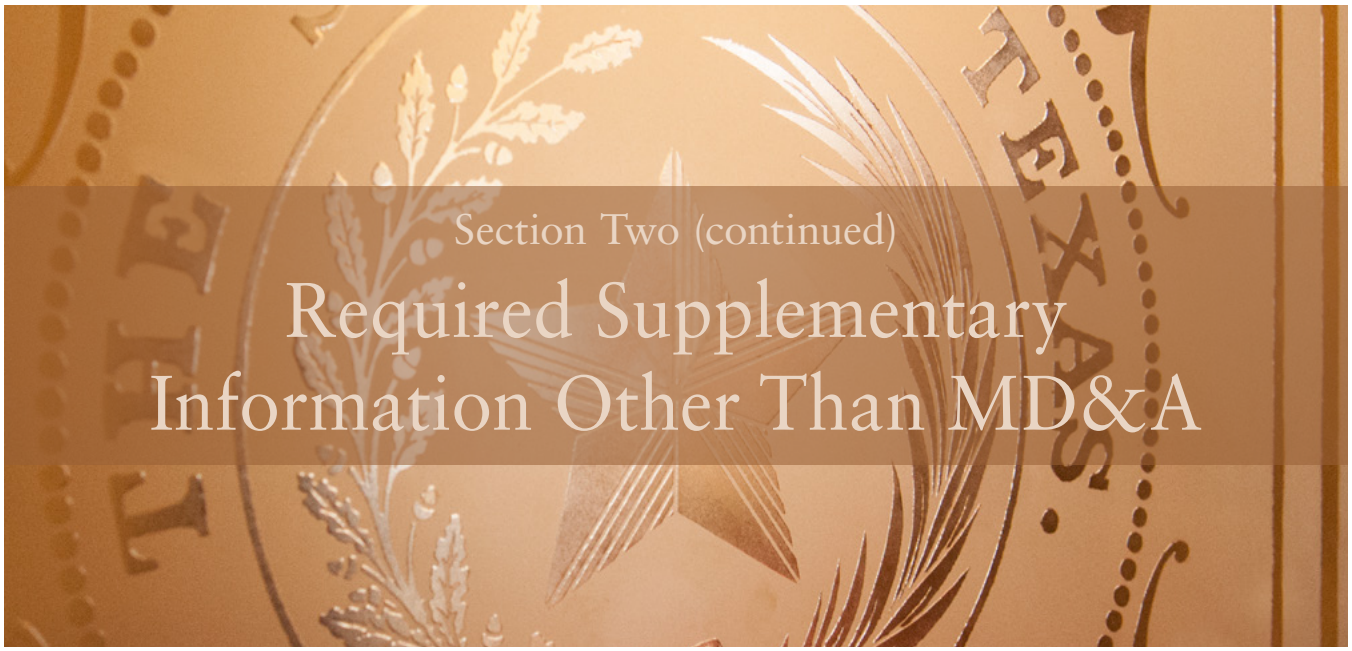
Note 28

Nonexchange Financial Guarantees

The state of Texas has two active programs that extend nonexchange financial guarantees to other entities.

The Texas Education Code, Title 2, Subtitle I, Chapter 45 provides for the guarantee of school district bonds by the permanent school fund (PSF). The PSF is also authorized for use to guarantee revenue bonds issued for certain open-enrollment charter schools designated by the commissioner of education. In the event of default by a school district or charter school, funds may be withheld from state money payable to the district or school in an amount necessary for payment of principal and/or interest. Guarantees extend through maturity dates of the bonds. At this date no school districts or charter schools have defaulted on their guaranteed bond indebtedness. As of Aug. 31, 2016, the total principal debt guaranteed on bond issues is $68.3 billion.

The Texas Credit Enhancement Program (TCEP) was established to provide a guarantee fund for issuing tax exempt revenue bonds to provide financing for the acquisition, construction, repair or renovation of Texas charter school facilities within federal program guidelines. A consortium consisting of the Texas Public Finance Authority Charter School Finance Corporation (CSFC), the Texas Charter Schools Association and Texas Education Agency was awarded a federal grant to create the guarantee fund. The CSFC is a nonprofit corporation created by the board of directors of the Texas Public Finance Authority (TPFA) pursuant to section 53.351 of the Texas Education Code. TPFA provides administrative and staff support for CSFC. Reimbursement periods commence on the date of a guarantee payment and end 12 months following such payment. Borrowers will reimburse CSFC within the guarantee period by making level monthly principal repayments for each guaranty period during the reimbursement period. Guarantees extend through maturity dates of the bonds. At this date only one charter school has defaulted on its guaranteed bond indebtedness. A demand for payment has not been received from CSFC at this time. As of Aug. 31, 2016, $5.1 million of available grant funds have been committed.



Section Two (continued)

Required Supplementary Information Other Than MD&A

STATE OF TEXAS

Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$ 46,744,576	$ 44,649,400	$ 42,998,843	$ (1,650,557)
Federal	33,072,253	41,185,513	39,097,659	(2,087,854)
Licenses, Fees and Permits	2,946,288	2,866,842	2,957,348	90,506
Interest and Other Investment Income	149,862	152,492	109,405	(43,087)
Land Income	39,495	32,130	18,519	(13,611)
Settlement of Claims	539,247	540,959	642,862	101,903
Sales of Goods and Services	2,982,887	4,178,363	3,556,287	(622,076)
Other	4,515,737	5,317,661	4,702,491	(615,170)
Total Revenues	90,990,345	98,923,360	94,083,414	(4,839,946)
EXPENDITURES				
General Government	5,648,330	4,607,272	2,536,760	2,070,512
Education	28,425,306	29,155,740	27,920,337	1,235,403
Employee Benefits	1,983,574	36,817	27,236	9,581
Teacher Retirement Benefits	2,125,502	2,125,502	2,080,935	44,567
Health and Human Services	40,630,960	51,649,277	53,534,705	(1,885,428)
Public Safety and Corrections	5,117,330	6,636,822	5,984,112	652,710
Transportation	412,972	433,302	116,676	316,626
Natural Resources and Recreation	2,145,063	2,518,633	2,141,649	376,984
Regulatory Services	278,806	370,212	336,693	33,519
Total Expenditures	86,767,843	97,533,577	94,679,103	2,854,474
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,222,502	1,389,783	(595,689)	(1,985,472)
OTHER FINANCING SOURCES (USES)				
Transfer In	1,367,480	2,283,451	4,436,781	2,153,330
Transfer Out	(5,528,078)	(5,970,879)	(7,197,668)	(1,226,789)
Sale of Capital Assets	7,292	7,613	5,720	(1,893)
Insurance Recoveries	814	893	3,494	2,601
Available Beginning Balances	10,147,884	10,147,884	10,147,884	
Total Other Financing Sources (Uses)	5,995,392	6,468,962	7,396,211	927,249
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 10,217,894	$ 7,858,745	$ 6,800,522	$ (1,058,223)

Budgetary Comparison Schedule
Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$ 2,586,498	$ 2,602,720	$ 2,625,184	$ 22,464
Federal	3,936,469	5,227,988	3,905,930	(1,322,058)
Licenses, Fees and Permits	1,553,296	1,540,598	1,524,795	(15,803)
Interest and Other Investment Income	892	21,966	40,541	18,575
Land Income	12,632	10,766	12,104	1,338
Settlement of Claims	1,000	1,000	47,519	46,519
Sales of Goods and Services	191,126	195,671	9,652	(186,019)
Other	138,092	138,234	67,750	(70,484)
Total Revenues	8,420,005	9,738,943	8,233,475	(1,505,468)
EXPENDITURES				
General Government	3,486	3,682	2,408	1,274
Employee Benefits	86,226			
Public Safety and Corrections			45,812	(45,812)
Transportation	9,835,239	11,258,857	8,660,769	2,598,088
Regulatory Services			2,399	(2,399)
Total Expenditures	9,924,951	11,262,539	8,711,388	2,551,151
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,504,946)	(1,523,596)	(477,913)	1,045,683
OTHER FINANCING SOURCES (USES)				
Transfer In	1,216,274	1,134,668	571,871	(562,797)
Transfer Out			(448,683)	(448,683)
Sale of Capital Assets	5,085	5,085	67,107	62,022
Insurance Recoveries	275	275		(275)
Available Beginning Balances	4,322,650	4,322,650	4,322,650	
Total Other Financing Sources (Uses)	5,544,284	5,462,678	4,512,945	(949,733)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$ 4,039,338	$ 3,939,082	$ 4,035,032	$ 95,950

Note to Budgetary Comparison Schedule

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is presented in the table below.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2016 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	$ 6,800,522	$ 4,035,032
Basis of Accounting Differences:		
Receivables and Unearned Revenues	(606,130)	22,554
Payables	695,307	136,226
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(10,147,884)	(4,322,650)
Revenues and Other Financing Sources Not Budgeted	739,574	25,479
Expenditures and Other Financing Uses Not Budgeted	(687,290)	(122,040)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	1,280	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	$ (3,204,621)	$ (225,399)

The major reconciling items between the budgetary comparison schedule actual and the GAAP financial statements are:

- ***Basis of Accounting Differences***: Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, unearned revenues, receivables and payables are included as reconciling items.
- ***Perspective Differences:*** Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule.
- The beginning cash balances are included as other financing sources in the budgetary comparison schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.
- ***Entity Differences:*** Budgets are not established for sources from capital leases. These financing sources are not included in the budgetary comparison schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - The $1.9 billion variance in health and human services is the result of increased expenditures made from the excess of federal revenues received over estimates by agencies in this particular function.

Major special revenue fund – state highway fund - The $45.8 million variance in public safety and corrections and the $2.4 million variance in regulatory services are the result of expenditures made from available beginning cash balance in the fund.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce an item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol" and "Vehicle Inspection Program" are two of the strategies for the Texas Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over-expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 20 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2016, $150,000 was transferred to the Historical Commission to assist in the preservation of a historical structure and maintain its authenticity. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Schedules of Changes in Net Pension Liability and Related Ratios

For each of the fiscal years presented, the measurement date for the information on the schedules of changes in net pension liability and related ratios was the prior fiscal year-end.

The schedules of changes in net pension liability and related ratios for the state's Employees Retirement System of Texas Plan (ERS Plan), Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan) and Judicial Retirement System of Texas Plan Two (JRS2 Plan) are presented below:

Schedule of Changes in Net Pension Liability and Related Ratios****

Employees Retirement System of Texas Plan

(Amounts in Thousands)

	2016	2015
Total Pension Liability		
Service Cost	$ 1,231,203	$ 1,139,451
Interest on the Total Pension Liability	2,373,850	2,324,180
Benefit Changes***	(87,835)	
Difference between Expected and Actual Experience of the Total Pension Liability	(284,751)	(252,967)
Assumption Changes	(3,429,167) *	1,199,067 *
Benefit Payments and Refunds	(2,049,291)	(1,963,481)
Net Change in Total Pension Liability	(2,245,991)	2,446,250
Total Pension Liability – Beginning	39,510,917	37,064,667
Total Pension Liability – Ending	$ 37,264,926	$ 39,510,917
Plan Fiduciary Net Position		
Contributions – Employer	$ 500,395	$ 482,239
Contributions – Member	462,160	430,595
Pension Plan Net Investment Income	56,941	3,252,417
Benefit Payments and Refunds	(2,049,291)	(1,963,481)
Pension Plan Administrative Expense	(21,840)	(20,195)
Net Change in Plan Fiduciary Net Position	(1,051,635)	2,181,575
Plan Fiduciary Net Position – Beginning	25,050,117	22,868,542
Plan Fiduciary Net Position – Ending	$ 23,998,482	$ 25,050,117
Net Pension Liability – Beginning	14,460,800	14,196,125
Net Pension Liability – Ending	$ 13,266,444	$ 14,460,800
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.40%	63.40%
Covered Employee Payroll**	$ 6,150,195	$ 5,955,461
Net Pension Liability as a Percentage of Covered Employee Payroll	215.71%	242.82%

Notes to Schedule:

* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

** The covered employee payroll is the actual annual payroll for the measurement period.

*** The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.

**** This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

Schedule of Changes in Net Pension Liability and Related Ratios****

Law Enforcement and Custodial Officer Supplemental Retirement Plan

(Amounts in Thousands)

	2016***	2015
Total Pension Liability		
Service Cost	$ 57,459	$ 54,528
Interest on the Total Pension Liability	87,222	88,025
Difference between Expected and Actual Experience of the Total Pension Liability	(9,640)	(76,585)
Assumption Changes*	148,114	68,228
Benefit Payments and Refunds	(61,344)	(57,147)
Net Change in Total Pension Liability	221,811	77,049
Total Pension Liability – Beginning	1,542,978	1,465,929
Total Pension Liability – Ending	$ 1,764,789	$ 1,542,978
Plan Fiduciary Net Position		
Contributions – Employer	$ 26,728	$ 27,758
Contributions – Member	8,376	8,180
Pension Plan Net Investment Income	1,918	111,741
Benefit Payments and Refunds	(61,344)	(57,147)
Pension Plan Administrative Expense	(1,412)	(1,324)
Net Change in Plan Fiduciary Net Position	(25,734)	89,208
Plan Fiduciary Net Position – Beginning	869,877	780,669
Plan Fiduciary Net Position – Ending	$ 844,143	$ 869,877
Net Pension Liability – Beginning	673,101	685,260
Net Pension Liability – Ending	$ 920,646	$ 673,101
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	47.83%	56.38%
Covered Employee Payroll**	$ 1,506,028	$ 1,496,013
Net Pension Liability as a Percentage of Covered Employee Payroll	61.13%	44.99%

Notes to Schedule:

* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

** The covered employee payroll is the actual annual payroll for the measurement period.

*** The actuarial valuation as of August 31, 2015 incorporated the impact of eliminating the 90-day waiting period for LECOS members but there was no immediate impact on the net pension liability.

**** This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

Schedule of Changes in Net Pension Liability and Related Ratios***

Judicial Retirement System of Texas, Plan Two

(Amounts in Thousands)

	2016	2015
Total Pension Liability		
Service Cost	$ 16,244	$ 17,805
Interest on the Total Pension Liability	30,786	28,004
Difference between Expected and Actual Experience of the Total Pension Liability	(10,067)	(640)
Assumption Changes*	35,653	(25,924)
Benefit Payments and Refunds	(19,238)	(16,420)
Net Change in Total Pension Liability	53,378	2,825
Total Pension Liability – Beginning	386,286	383,461
Total Pension Liability – Ending	$ 439,664	$ 386,286
Plan Fiduciary Net Position		
Contributions – Employer	$ 12,457	$ 12,211
Contributions – Member	5,465	5,195
Pension Plan Net Investment Income	820	46,186
Benefit Payments and Refunds	(19,238)	(16,420)
Pension Plan Administrative Expense	(284)	(267)
Net Change in Plan Fiduciary Net Position	(780)	46,905
Plan Fiduciary Net Position – Beginning	365,290	318,385
Plan Fiduciary Net Position – Ending	$ 364,510	$ 365,290
Net Pension Liability – Beginning	20,996	65,076
Net Pension Liability – Ending	$ 75,154	$ 20,996
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.91%	94.56%
Covered Employee Payroll**	$ 77,501	$ 77,441
Net Pension Liability as a Percentage of Covered Employee Payroll	96.97%	27.11%

Notes to Schedule:

* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

** The covered employee payroll is the actual annual payroll for the measurement period.

*** This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

Schedules of Proportionate Share of Net Pension Liability

For each of the fiscal years presented, the measurement date for the information on the schedules of proportionate share of net pension liability was the prior fiscal year-end.

The schedules of proportionate share of the net pension liability for the state's Teacher Retirement System of Texas Plan (TRS Plan) for the state as an employer and as a non-employer contributing entity are presented below.

Schedule of Proportionate Share of Net Pension Liability*

Teacher Retirement System of Texas Plan

State as Employer

(Amounts in Thousands)

	2016	2015
State's proportion of the net pension liability	14.11%	16.97%
State's proportionate share of the net pension liability**	$ 4,989,195	$ 4,534,735
State's covered payroll	$ 5,426,660	$ 6,221,452
State's proportionate share of the net pension liability as a percentage of its covered payroll	91.94%	72.89%
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

* This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

** The state's proportionate share of the net pension liability for the state as an employer consists of $1,111,169 reported in governmental activity and $3,878,026 reported in business-type activity.

Schedule of Proportionate Share of Net Pension Liability*

Teacher Retirement System of Texas Plan

State as Non-Employer Contributing Entity

(Amounts in Thousands)

	2016	2015
State's proportion of the net pension liability	53.75%	60.37%
State's proportionate share of the net pension liability	$ 18,998,983	$ 16,129,760
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

* This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

The schedule of proportionate share of the net pension liability for the Texas Emergency Services Retirement System Plan (TESRS Plan) for the state as a non-employer contributing entity is presented below.

Schedule of Proportionate Share of Net Pension Liability*

Texas Emergency Services Retirement System Plan

State as Non-Employer Contributing Entity

(Amounts in Thousands)

	2016	2015
State's proportion of the net pension liability	34.66%	33.79%
State's proportionate share of the net pension liability	$ 9,252	$ 6,140
Plan fiduciary net position as a percentage of the total pension liability	76.9%	83.5%

* This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

Schedules of Employer Contributions

The information on the schedules of employer contributions was determined as of the end of the fiscal years presented.

The schedules of employer contributions comparing the actuarially determined contributions and the contributions recognized by the pension plan in relation to the actuarially determined contributions for the state's ERS, LECOS and JRS2 Plans are presented below and on the following page.

Schedule of Employer Contributions[4]
Employees Retirement System of Texas Plan

(Amounts in Thousands)

	2016	2015	2014
Actuarially determined contributions	$ 679,806	$ 737,111	$ 727,892
Contributions in relation to the actuarially determined contributions	686,763	500,395	482,239
Contribution deficiency (excess)	(6,957)	236,716	245,653
Covered-employee payroll	6,742,143	6,150,195	5,955,461
Contributions as a percentage of covered-employee payroll	10.19%	8.14%	8.10%

Notes to Schedule of Contributions

Valuation Date	Actuarially determined contribution rates are calculated based on the actuarial valuation as of Aug. 31 of the fiscal year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	0% to 11.5%
Investment Rate of Return	8.0%
Retirement Age	Experience-based table of rates that are specific to the class of employee. Last updated for the 2013 valuation pursuant to an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011.
Mortality	1994 Group Annuity Mortality with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

Other Information:

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. Members and employers contribute based on statutorily fixed rates.
3. The covered-employee payroll is the actual annual payroll for the fiscal year being reported.
4. This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedule of Employer Contributions[4]
Law Enforcement and Custodial Officer Supplemental Retirement Plan

(Amounts in Thousands)

	2016	2015	2014
Actuarially determined contributions	$ 43,167	$ 38,131	$ 40,205
Contributions in relation to the actuarially determined contributions	27,497	26,728	27,758
Contribution deficiency	15,670	11,403	12,447
Covered-employee payroll	1,725,880	1,506,028	1,496,013
Contributions as a percentage of covered-employee payroll	1.59%	1.77%	1.86%

Notes to Schedule of Contributions

Valuation Date

Actuarially determined contribution rates are calculated based on the actuarial valuation at the beginning of the fiscal year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	5% to 11.5%
Investment Rate of Return	8.0%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011.
Mortality	1994 Group Annuity Mortality with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

Other Information:

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. Members and employers contribute based on statutorily fixed rates.
3. The covered-employee payroll is the actual annual payroll for the fiscal year being reported.
4. This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedule of Employer Contributions[4]
Judicial Retirement System of Texas Plan Two

(Amounts in Thousands)

	2016	2015	2014
Actuarially determined contributions	$ 12,896	$ 13,107	$ 13,449
Contributions in relation to the actuarially determined contributions	12,374	12,457	12,211
Contribution deficiency	522	650	1,238
Covered-employee payroll	78,261	77,501	77,441
Contributions as a percentage of covered-employee payroll	15.81%	16.07%	15.77%

Notes to Schedule of Contributions

Valuation Date	Actuarially determined contribution rates are calculated based on the actuarial valuation at the beginning of the fiscal year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	3.5%
Investment Rate of Return	8.0%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011.
Mortality	1994 Group Annuity Mortality with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

Other Information:

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. Members and employers contribute based on statutorily fixed rates.
3. The covered-employee payroll is the actual annual payroll for the fiscal year being reported.
4. This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

The schedules of employer contributions comparing the statutorily required contributions and the contributions recognized by the pension plan in relation to the statutorily required contributions for the state's TRS Plan for the state as an employer and as a non-employer contributing entity are presented below.

Schedule of Employer Contributions*

Teacher Retirement System of Texas Plan

State as Employer

(Amounts in Thousands)

	2016	2015	2014
Statutorily required contributions	$ 466,216	$ 417,698	$ 430,321
Contributions in relation to the statutorily required contributions	466,216	417,698	430,321
Contribution deficiency (excess)	0	0	0
Covered-employee payroll	5,750,539	5,408,293	6,221,452
Contributions as a percentage of covered-employee payroll	8.11%	7.72%	6.92%

* This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

The schedule of contributions comparing the statutorily required contributions and the contributions recognized by the pension plan in relation to the statutorily required contributions for TESRS plan for the state as a non-employer contributing entity is presented below.

Schedule of Employer Contributions*

Texas Emergency Services Retirement System Plan

State as Non-Employer Contributing Entity

(Amounts in Thousands)

	2016	2015	2014
Statutorily required contributions	$ 1,584	$ 1,637	$ 1,530
Contributions in relation to the statutorily required contributions	1,584	1,637	1,530
Contribution deficiency (excess)	0	0	0

* This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedule of Employer Contributions*

Teacher Retirement System of Texas Plan

State as Non-Employer Contributing Entity

(Amounts in Thousands)

	2016	2015	2014
Statutorily required contributions	$ 1,675,631	$ 1,591,483	$ 1,530,624
Contributions in relation to the statutorily required contributions	1,675,631	1,591,483	1,530,624
Contribution deficiency (excess)	0	0	0

* This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedules of Funding Progress

The schedule of funding progress for the state's Judicial Retirement System Plan One (JRS1 Plan) for the three most recent actuarial valuations is presented in the table below.

Schedule of Funding Progress – Pension

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)** (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Judicial Retirement System Plan One (JRS1 Plan)*						
08/31/16	$ 0	$ 328,044	$ 328,044	0.0%	$ 577	56,853.4%
08/31/15	0	309,710	309,710	0.0%	1,470	21,068.7%
08/31/14	0	332,238	332,238	0.0%	1,764	18,834.4%

* Address for obtaining the financial report for the JRS1 pension plan is provided in Note 9.

** AAL for JRS1 is determined based on a 2.84 percent discount rate as of Aug. 31, 2016, a 3.79 percent as of Aug. 31, 2015 and 4.17 percent as of Aug. 31, 2014.

The schedule of funding progress for the state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table below.

Schedule of Funding Progress – OPEB*

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/15	$ 0	$ 8,584,045	$ 8,584,045	0.0%	$ 5,948,245	144.3%
12/31/14	0	8,274,414	8,274,414	0.0%	5,842,410	141.6%
12/31/12	0	6,939,197	6,939,197	0.0%	5,674,298	122.3%
A&M Care Health and Life Plan (A&M Plan)						
09/01/14	$ 0	$ 2,002,649	$ 2,002,649	0.0%	$ 1,440,510	139.0%
09/01/12	0	1,924,980	1,924,980	0.0%	1,149,300	167.5%
09/01/10	0	1,854,690	1,854,690	0.0%	1,313,538	141.2%

* Addresses for obtaining the financial reports of the OPEB plans are provided in Note 11.

Significant Factors Affecting the Comparability of Amounts Reported

Pension Plans

The state implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27,* in fiscal 2015. All pension schedules present information in accordance with the GASB Statement No. 68 standards except the Schedule of Funding Progress for JRS1 Plan which present information in accordance with the GASB Statement No. 27 standards.

There is no change in the actuarial methods and assumptions used to develop the required contributions in the schedules of employer contributions for the ERS, LECOS and JRS2 Plans since fiscal 2015.

For the JRS1 Plan, membership continues to decrease as a result of new judicial officers participating in JRS2 Plan. Beginning Aug. 31, 2015, the actuarial accrued liability is determined based on a discount rate derived from a current municipal bond rate.

For the TRS Plan, changes in actuarial assumptions such as inflation, salary increase and mortality assumptions from measurement period 2014 to 2015 had some impact on the measurement of the total pension liability that the net pension liability was derived from for the current measurement period.

OPEB Plans

The University of Texas System (UT) and the Texas A&M University System (A&M) opted to perform actuarial valuations of their respective OPEB plans on a biennial basis rather than on an annual basis starting with fiscal 2012. A new valuation was performed on Dec. 31, 2014 and Sept. 1, 2014 for UT and A&M respectively. However, some significant changes occurred after UT's Dec. 31, 2014 valuation that will affect the results of the 2014 valuation; therefore, a full valuation was performed as of Dec. 31, 2015 again for UT Plan.

The following methods and assumptions were modified since the prior valuation of the UT Plan:

- The assumed salary increase, mortality rate, termination, disability and retirement assumptions were updated to be consistent with the assumptions used by the TRS retirement plan actuary. These assumptions were updated by the TRS actuary in fiscal 2015 to reflect the results of a recent experience study.
- The discount rate was updated to reflect a change in the investment policies of the assets of the employer and to reflect changes in expected returns of the various asset classes that comprise the assets of the employer.
- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents has been updated to reflect claims and expense experience in the 12 months following the date as of which the prior valuation assumptions were determined.
- The Assumed Per Capita Health Benefit Costs reflect the impact of benefit changes that occurred on Sept. 1, 2016 and will occur on Jan. 1, 2017.
- The Assumed Per Capita Health Benefit Costs reflect the implementation of Employer Group Waiver Plan (EGWP) plus Wrap prescription drug coverage for Medicare primary participants effective Jan. 1, 2017.
- The Health Benefit Cost Trend has been updated to reflect changes in short-term expectations of the annual rate of increase of the Assumed Per Capita Health Benefit Costs.

The following methods and assumptions were modified since the prior valuation of the A&M Plan:

- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect claims and expense experience in the 24 months following the date as of which the prior valuation's assumptions were determined.
- The Health Benefit Cost Trend has been updated to reflect changes in short-term expectations of the annual rate of increase of the Assumed Per Capita Health Benefit Costs.

Section Two (continued)

Other Supplementary Information Combining Financial Statements and Schedules

Section Two (continued)

Governmental Funds

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2016 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	$ 488,187	$ 727,751	$2,053,666	$ 64,639	$ 3,334,243
Short-Term Investments	67,882			77,376	145,258
Receivables:					
Accounts	124	1,045	6		1,175
Taxes	76,458				76,458
Federal	665	19,559			20,224
Interest and Dividends	11,815	189		73	12,077
Due From Other Funds	75,989	97,000	151,938	514	325,441
Inventories	166		5		171
Prepaid Items			344		344
Investments	1,758,423			1,274,855	3,033,278
Loans and Contracts	802,258				802,258
Restricted:					
Cash and Cash Equivalents	1,500				1,500
Loans and Contracts	970,227				970,227
Other Assets	90,542				90,542
Total Assets	$ 4,344,236	$ 845,544	$2,205,959	$ 1,417,457	$ 8,813,196
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 45,200	$ 38	$ 66,155	$ 1,315	$ 112,708
Payroll	748		5		753
Due To Other Funds	965		113,143	49,754	163,862
Interfund Payable	2,290		332		2,622
Unearned Revenues	326		720,921		721,247
Other Liabilities	36		2,556		2,592
Total Liabilities	49,565	38	903,112	51,069	1,003,784
Fund Balances:					
Nonspendable	166		4	797,512	797,682
Restricted	4,167,925	845,506	1,302,843	558,314	6,874,588
Committed	124,741			10,562	135,303
Assigned	1,839				1,839
Total Fund Balances	4,294,671	845,506	1,302,847	1,366,388	7,809,412
Total Liabilities and Fund Balances	$ 4,344,236	$ 845,544	$2,205,959	$ 1,417,457	$ 8,813,196

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Taxes	$ 2,747,761	$	$	$	$ 2,747,761
Federal	1,594	48,238			49,832
Licenses, Fees and Permits	233,488	424,306			657,794
Interest and Other Investment Income	116,181	6,160	7,072	40,044	169,457
Land Income	27			10	37
Settlement of Claims		180			180
Sales of Goods and Services	209		131,550		131,759
Other	16,507			299,302	315,809
Total Revenues	3,115,767	478,884	138,622	339,356	4,072,629
EXPENDITURES					
Current:					
General Government	222,368	703	17,325	3,869	244,265
Education	895,843		(40)	2,902	898,705
Employee Benefits	19,500				19,500
Health and Human Services	7		21,054	221	21,282
Public Safety and Corrections	60,744		10,658		71,402
Transportation	83,167		9,533		92,700
Natural Resources and Recreation	55,465		2,021	3,610	61,096
Regulatory Services	324,117				324,117
Capital Outlay	702		963,811		964,513
Debt Service:					
Principal	89	536,305			536,394
Interest	184	650,490	14		650,688
Other Financing Fees	518	4,117	3,655		8,290
Total Expenditures	1,662,704	1,191,615	1,028,031	10,602	3,892,952
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,453,063	(712,731)	(889,409)	328,754	179,677
OTHER FINANCING SOURCES (USES)					
Transfer In	1,227,949	851,132	422,697		2,501,778
Transfer Out	(3,333,039)	(64,972)	(156,580)	(32,523)	(3,587,114)
Bonds and Notes Issued	199,902		681,925		881,827
Bonds Issued for Refunding		1,165,465	157,916		1,323,381
Premiums on Bonds Issued	19,502	173,977	165,156		358,635
Payment to Escrow for Refunding		(1,338,110)	(188,893)		(1,527,003)
Sale of Capital Assets	3				3
Total Other Financing Sources (Uses)	(1,885,683)	787,492	1,082,221	(32,523)	(48,493)
Net Change in Fund Balances	(432,620)	74,761	192,812	296,231	131,184
Fund Balances, September 1, 2015	4,730,048	770,745	1,106,824	1,070,157	7,677,774
Restatements	(2,757)		3,211		454
Fund Balances, September 1, 2015, as Restated	4,727,291	770,745	1,110,035	1,070,157	7,678,228
Fund Balances, August 31, 2016	$ 4,294,671	$ 845,506	$ 1,302,847	$ 1,366,388	$ 7,809,412

Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increases and calculated amounts from franchise taxes. The fund was established with the intent of reducing school district property taxes.

The **Texas Transportation Corporations** issue bonds and notes – currently only conduit debt – to finance the cost of projects. The corporations act on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements entered into by TxDOT.

The **Transportation Infrastructure Fund** makes grants to counties for transportation infrastructure projects located in areas of the state affected by increased oil and gas production. The sources of the fund include federal funds, matching state funds, legislative appropriations, gifts, grants, fees and investment earnings.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonbypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2016 (Amounts in Thousands)

	Property Tax Relief Fund	Transportation Infrastructure Fund	Water Development Funds	System Benefit Fund	Available School Fund	Other Nonmajor Special Revenue Funds*	Totals
ASSETS							
Cash and Cash Equivalents	$	$ 81,816	$ 132,003	$ 33,786	$ 13,231	$ 227,351	$ 488,187
Short-Term Investments			67,873			9	67,882
Receivables:							
Accounts			33			91	124
Taxes					76,458		76,458
Federal			60			605	665
Interest and Dividends	34		2,558		90	9,133	11,815
Due From Other Funds			4		75,043	942	75,989
Inventories						166	166
Investments			1,756,489			1,934	1,758,423
Loans and Contracts			781,648			20,610	802,258
Restricted:							
Cash and Cash Equivalents						1,500	1,500
Loans and Contracts						970,227	970,227
Other Assets						90,542	90,542
Total Assets	$ 34	$ 81,816	$ 2,740,668	$ 33,786	$ 164,822	$ 1,323,110	$ 4,344,236
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	$	$ 10,416	$ 914	$ 31,139	$	$ 2,731	$ 45,200
Payroll			14			734	748
Due To Other Funds			483			482	965
Interfund Payable			2,290				2,290
Unearned Revenues					32	294	326
Other Liabilities						36	36
Total Liabilities	0	10,416	3,701	31,139	32	4,277	49,565
Fund Balances:							
Nonspendable						166	166
Restricted	34		2,736,781		164,790	1,266,320	4,167,925
Committed		71,400	186	2,647		50,508	124,741
Assigned						1,839	1,839
Total Fund Balances	34	71,400	2,736,967	2,647	164,790	1,318,833	4,294,671
Total Liabilities and Fund Balances	$ 34	$ 81,816	$ 2,740,668	$ 33,786	$ 164,822	$ 1,323,110	$ 4,344,236

* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Property Tax Relief Fund	Transportation Infrastructure Fund	Water Development Funds	System Benefit Fund	Available School Fund	Other Nonmajor Special Revenue Funds*	Totals
REVENUES							
Taxes	$ 1,885,044	$	$	$	$ 862,717	$	$ 2,747,761
Federal			227			1,367	1,594
Licenses, Fees and Permits				2		233,486	233,488
Interest and Other Investment Income	765	863	52,877		576	61,100	116,181
Land Income						27	27
Sales of Goods and Services			146			63	209
Other			264			16,243	16,507
Total Revenues	1,885,809	863	53,514	2	863,293	312,286	3,115,767
EXPENDITURES							
Current:							
General Government						222,368	222,368
Education					872,552	23,291	895,843
Employee Benefits			1			19,499	19,500
Health and Human Services						7	7
Public Safety and Corrections						60,744	60,744
Transportation		83,167					83,167
Natural Resources and Recreation			50,800			4,665	55,465
Regulatory Services				324,073		44	324,117
Capital Outlay			95			607	702
Debt Service:							
Principal						89	89
Interest			133			51	184
Other Financing Fees						518	518
Total Expenditures	0	83,167	51,029	324,073	872,552	331,883	1,662,704
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,885,809	(82,304)	2,485	(324,071)	(9,259)	(19,597)	1,453,063
OTHER FINANCING SOURCES (USES)							
Transfer In			2,755		1,056,412	168,782	1,227,949
Transfer Out	(1,885,862)		(163,346)		(1,057,023)	(226,808)	(3,333,039)
Bonds and Notes Issued			49,902			150,000	199,902
Premiums on Bonds Issued						19,502	19,502
Sale of Capital Assets						3	3
Total Other Financing Sources (Uses)	(1,885,862)	0	(110,689)	0	(611)	111,479	(1,885,683)
Net Change in Fund Balances	(53)	(82,304)	(108,204)	(324,071)	(9,870)	91,882	(432,620)
Fund Balances, September 1, 2015	87	153,704	2,845,095	326,718	174,660	1,229,784	4,730,048
Restatements			76			(2,833)	(2,757)
Fund Balances, September 1, 2015, as Restated	87	153,704	2,845,171	326,718	174,660	1,226,951	4,727,291
Fund Balances, August 31, 2016	$ 34	$ 71,400	$ 2,736,967	$ 2,647	$ 164,790	$ 1,318,833	$ 4,294,671

* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Property Tax Relief Fund				Transportation Infrastructure Fund			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	$ 2,725,800	$ 1,510,543	$ 1,885,045	$ 374,502	$	$	$	$
Federal								
Licenses, Fees and Permits								
Interest and Other Investment Income	1,876	1,132	817	(315)	800	800	863	63
Land Income								
Sales of Goods and Services								
Other								
Total Revenues	2,727,676	1,511,675	1,885,862	374,187	800	800	863	63
EXPENDITURES								
General Government								
Education								
Employee Benefits								
Transportation					138,050	138,050	90,060	47,990
Health and Human Services								
Natural Resources and Recreation								
Regulatory Services								
Total Expenditures	0	0	0	0	138,050	138,050	90,060	47,990
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,727,676	1,511,675	1,885,862	374,187	(137,250)	(137,250)	(89,197)	48,053
OTHER FINANCING SOURCES (USES)								
Transfer In								
Transfer Out	(1,427,700)	(1,511,675)	(1,885,862)	(374,187)				
Available Beginning Balances					171,013	171,013	171,013	
Total Other Financing Sources (Uses)	(1,427,700)	(1,511,675)	(1,885,862)	(374,187)	171,013	171,013	171,013	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 1,299,976	$ 0	$ 0	$ 0	$ 33,763	$ 33,763	$ 81,816	$ 48,053

Continued on the following page

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Water Development Funds				System Benefit Fund			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	$	$	$	$	$	$	$	$
Federal			266	266				
Licenses, Fees and Permits							3	3
Interest and Other Investment Income	15,128	15,128	62,619	47,491				
Land Income								
Sales of Goods and Services			122	122				
Other			264	264				
Total Revenues	15,128	15,128	63,271	48,143	0	0	3	3
EXPENDITURES								
General Government								
Education								
Employee Benefits		1	1					
Transportation								
Health and Human Services								
Natural Resources and Recreation	4,459	114,164	52,023	62,141				
Regulatory Services					334,248	337,065	312,750	24,315
Total Expenditures	4,459	114,165	52,024	62,141	334,248	337,065	312,750	24,315
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,669	(99,037)	11,247	110,284	(334,248)	(337,065)	(312,747)	24,318
OTHER FINANCING SOURCES (USES)								
Transfer In			2,755	2,755				
Transfer Out			(55,171)	(55,171)				
Available Beginning Balances	241,649	241,649	241,649		346,948	346,948	346,948	
Total Other Financing Sources (Uses)	241,649	241,649	189,233	(52,416)	346,948	346,948	346,948	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 252,318	$ 142,612	$ 200,480	$ 57,868	$ 12,700	$ 9,883	$ 34,201	$ 24,318

Concluded on the following page

STATE OF TEXAS

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Available School Fund *				Other Nonmajor Special Revenue Funds			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis *	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	$ 853,408	$ 858,815	$ 862,661	$ 3,846	$	$	$	$
Federal					6,717	6,717	1,164	(5,553)
Licenses, Fees and Permits					88,264	88,851	86,379	(2,472)
Interest and Other Investment Income	842	596	541	(55)	630	630	(49,372)	(50,002)
Land Income							27	27
Sales of Goods and Services							1,758	1,758
Other					14	93	(2,393)	(2,486)
Total Revenues	854,250	859,411	863,202	3,791	95,625	96,291	37,563	(58,728)
EXPENDITURES								
General Government					516,080	182,058	92,327	89,731
Education	1,381,800	883,221	872,552	10,669			(5)	5
Employee Benefits					660,586	32,229	19,356	12,873
Transportation								
Health and Human Services					14,569	14,569	10	14,559
Natural Resources and Recreation					5,006	5,309	3,473	1,836
Regulatory Services						55		55
Total Expenditures	1,381,800	883,221	872,552	10,669	1,196,241	234,220	115,161	119,059
Excess (Deficiency) of Revenues Over (Under) Expenditures	(527,550)	(23,810)	(9,350)	14,460	(1,100,616)	(137,929)	(77,598)	60,331
OTHER FINANCING SOURCES (USES)								
Transfer In	1,055,084	1,055,084	1,056,412	1,328			127,429	127,429
Transfer Out		(1,054,439)	(1,057,024)	(2,585)			(43,329)	(43,329)
Available Beginning Balances	23,165	23,165	23,165		150,802	150,802	150,802	
Total Other Financing Sources (Uses)	1,078,249	23,810	22,553	(1,257)	150,802	150,802	234,902	84,100
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 550,699	$ 0	$ 13,203	$ 13,203	$ (949,814)	$ 12,873	$ 157,304	$ 144,431

* Expenditures for final budgetary has been revised to $883,221 due to funding formula on this fund per TX Const. Art. III, 49a .

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas opportunity plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Department of Transportation Texas Mobility Fund** receives proceeds from the sale of general obligation bonds and the revenues dictated by statute to provide for the debt service requirements of those bonds. The bond proceeds provide a method of financing for the construction, reconstruction, acquisition and expansion of state highway projects. The proceeds remain in the fund until transferred to the state highway fund.

The **Texas Public Finance Authority G.O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on the sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Department of Transportation State Highway Debt Service Fund** receives proceeds and accrued interest from the sale of revenue bonds and provides the debt service requirements for those bonds.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2016 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Department of Transportation Texas Mobility Fund	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
ASSETS							
Cash and Cash Equivalents	$ 124,600	$ 471,443	$ 39	$ 5,144	$ 126,508	$ 17	$ 727,751
Receivables:							
Accounts	1,045						1,045
Federal		9,063			10,496		19,559
Interest and Dividends	189						189
Due from Other Funds		97,000					97,000
Total Assets	$ 125,834	$ 577,506	$ 39	$ 5,144	$ 137,004	$ 17	$ 845,544
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	$	$ 31	$	$	$	$ 7	$ 38
Total Liabilities	0	31	0	0	0	7	38
Fund Balances:							
Restricted	125,834	577,475	39	5,144	137,004	10	845,506
Total Fund Balances	125,834	577,475	39	5,144	137,004	10	845,506
Total Liabilities and Fund Balances	$ 125,834	$ 577,506	$ 39	$ 5,144	$ 137,004	$ 17	$ 845,544

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Department of Transportation Texas Mobility Fund	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
REVENUES							
Federal	$ 23	$ 21,722	$ 3,401	$	$ 23,092	$	$ 48,238
Licenses, Fees and Permits		424,306					424,306
Interest and Other Investment Income	2,246	3,174	4	27	694	15	6,160
Settlement of Claims		180					180
Total Revenues	2,269	449,382	3,405	27	23,786	15	478,884
EXPENDITURES							
Current:							
General Government			291	412			703
Debt Service:							
Principal	56,281	48,730	191,920	9,664	138,510	91,200	536,305
Interest	44,955	296,447	85,311	215	176,061	47,501	650,490
Other Financing Fees		4,117					4,117
Total Expenditures	101,236	349,294	277,522	10,291	314,571	138,701	1,191,615
Excess (Deficiency) of Revenues Over (Under) Expenditures	(98,967)	100,088	(274,117)	(10,264)	(290,785)	(138,686)	(712,731)
OTHER FINANCING SOURCES (USES)							
Transfer In	122,253		275,161	13,758	301,098	138,862	851,132
Transfer Out	(20,000)	(44,792)				(180)	(64,972)
Bonds Issued for Refunding		1,165,465					1,165,465
Premium on Bonds Issued		173,977					173,977
Payment to Escrow for Refunding		(1,335,153)	(1,020)	(1,937)			(1,338,110)
Total Other Financing Sources	102,253	(40,503)	274,141	11,821	301,098	138,682	787,492
Net Change in Fund Balances	3,286	59,585	24	1,557	10,313	(4)	74,761
Fund Balances, September 1, 2015	122,548	517,890	15	3,587	126,691	14	770,745
Fund Balances, August 31, 2016	$ 125,834	$ 577,475	$ 39	$ 5,144	$ 137,004	$ 10	$ 845,506

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Juvenile Justice Department Project Funds** are used to pay for minor construction and repairs of the former Texas Youth Commission buildings and facilities.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new Department of Public Safety buildings and crime lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used for public road and highway development, construction and improvement projects. The funds are also used to establish, acquire, operate, maintain and dispose of airports and air navigation facilities.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of courthouses.

The **Texas Mobility Capital Project Funds** are used to provide a method of financing construction, reconstruction, acquisition and expansion of state highways and other transportation projects.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2016 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Juvenile Justice Department Project Funds	Texas Health Agencies Project Funds
ASSETS						
Cash and Cash Equivalents	$ 5,035	$ 5,045	$ 311,063	$ 2,047	$ 1,735	$ 1,427
Accounts Receivable						
Due From Other Funds			73,219		46	42,548
Inventories	5					
Prepaid Items	344					
Total Assets	$ 5,384	$ 5,045	$ 384,282	$ 2,047	$ 1,781	$ 43,975
LIABILITIES AND FUND BALANCES						
Liabilities:						
Payables:						
Accounts	$ 521	$ 673	$ 5,425	$ 181	$ 380	$ 729
Payroll			5			
Due To Other Funds			16,143			
Interfund Payable		111				221
Unearned Revenues						
Other Liabilities			2,095	461		
Total Liabilities	521	784	23,668	642	380	950
Fund Balances:						
Nonspendable	4					
Restricted	4,859	4,261	360,614	1,405	1,401	43,025
Total Fund Balances	4,863	4,261	360,614	1,405	1,401	43,025
Total Liabilities and Fund Balances	$ 5,384	$ 5,045	$ 384,282	$ 2,047	$ 1,781	$ 43,975

Concluded on the following page

Combining Balance Sheet – Nonmajor Capital Projects Funds (concluded)

August 31, 2016 (Amounts in Thousands)

	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Texas Mobility Capital Project Funds	Other Nonmajor Capital Projects Funds	Totals
ASSETS						
Cash and Cash Equivalents	$ 5,507	$ 1,071,558	$ 12,158	$ 637,509	$ 582	$ 2,053,666
Accounts Receivable					6	6
Due From Other Funds		36,125				151,938
Inventories						5
Prepaid Items						344
Total Assets	$ 5,507	$ 1,107,683	$ 12,158	$ 637,509	$ 588	$ 2,205,959
LIABILITIES AND FUND BALANCES						
Liabilities:						
Payables:						
Accounts	$ 354	$ 21,100	$ 87	$ 36,705	$	$ 66,155
Payroll						5
Due To Other Funds				97,000		113,143
Interfund Payable						332
Unearned Revenues		720,921				720,921
Other Liabilities						2,556
Total Liabilities	354	742,021	87	133,705	0	903,112
Fund Balances:						
Nonspendable						4
Restricted	5,153	365,662	12,071	503,804	588	1,302,843
Total Fund Balances	5,153	365,662	12,071	503,804	588	1,302,847
Total Liabilities and Fund Balances	$ 5,507	$ 1,107,683	$ 12,158	$ 637,509	$ 588	$ 2,205,959

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Juvenile Justice Project Funds	Texas Health Agencies Project Funds
REVENUES						
Interest and Other Investment Income	$ 23	$ 28	$ 72	$ 39	$ 17	$ 26
Sales of Goods and Services			(312)			
Total Revenues	23	28	(240)	39	17	26
EXPENDITURES						
Current:						
General Government	1,017		10,380			
Education						
Health and Human Services						21,057
Public Safety and Corrections				7,566	1,673	
Transportation						
Natural Resources and Recreation		2,031				
Capital Outlay		6,340	46,581	392	135	636
Debt Service:						
Interest						14
Other Financing Fees	623					
Total Expenditures	1,640	8,371	56,961	7,958	1,808	21,707
Deficiency of Revenues Under Expenditures	(1,617)	(8,343)	(57,201)	(7,919)	(1,791)	(21,681)
OTHER FINANCING SOURCES (USES)						
Transfer In	449		337,620			39,836
Transfer Out	(8,524)	(9)	(16,151)			(5)
Bonds and Notes Issued	11,125	10,500	29,000		750	6,900
Bond Issued for Refunding	157,916					
Premium on Bonds Issued	32,393					
Payment to Escrow for Refunding	(188,893)					
Total Other Financing Sources (Uses)	4,466	10,491	350,469	0	750	46,731
Net Change in Fund Balances	2,849	2,148	293,268	(7,919)	(1,041)	25,050
Fund Balances, September 1, 2015	2,014	2,113	67,346	9,324	2,442	14,764
Restatements						3,211
Fund Balances, September 1, 2015, as Restated	2,014	2,113	67,346	9,324	2,442	17,975
Fund Balances, August 31, 2016	$ 4,863	$ 4,261	$ 360,614	$ 1,405	$ 1,401	$ 43,025

Concluded on the following page

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Texas Mobility Capital Project Funds	Other Nonmajor Capital Projects Funds	Totals
REVENUES						
Interest and Other Investment Income	$ 38	$ 2,274	$ 86	$ 4,464	$ 5	$ 7,072
Sales of Goods and Services		131,862				131,550
Total Revenues	38	134,136	86	4,464	5	138,622
EXPENDITURES						
Current:						
General Government			5,915		13	17,325
Education					(40)	(40)
Health and Human Services					(3)	21,054
Public Safety and Corrections	1,348				71	10,658
Transportation				9,533		9,533
Natural Resources and Recreation					(10)	2,021
Capital Outlay	1,469	697,922	1,250	207,830	1,256	963,811
Debt Service:						
Interest						14
Other Financing Fees		2,247		785		3,655
Total Expenditures	2,817	700,169	7,165	218,148	1,287	1,028,031
Deficiency of Revenues Under Expenditures	(2,779)	(566,033)	(7,079)	(213,684)	(1,282)	(889,409)
OTHER FINANCING SOURCES (USES)						
Transfer In				44,792		422,697
Transfer Out	(26)	(131,862)			(3)	(156,580)
Bonds and Notes Issued	2,150	615,000	6,000		500	681,925
Bond Issued for Refunding						157,916
Premium on Bonds Issued		132,763				165,156
Payment to Escrow for Refunding						(188,893)
Total Other Financing Sources (Uses)	2,124	615,901	6,000	44,792	497	1,082,221
Net Change in Fund Balances	(655)	49,868	(1,079)	(168,892)	(785)	192,812
Fund Balances, September 1, 2015	5,808	315,794	13,150	672,696	1,373	1,106,824
Restatements						3,211
Fund Balances, September 1, 2015, as Restated	5,808	315,794	13,150	672,696	1,373	1,110,035
Fund Balances, August 31, 2016	$ 5,153	$ 365,662	$ 12,071	$ 503,804	$ 588	$ 1,302,847

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** was established by the Legislature from a portion of the money received in the settlement of The State of Texas v. The American Tobacco Co., et.al. The corpus of the account was designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **National Research University Fund** was established by the Legislature to provide a dedicated, independent and equitable source of funding to enable emerging research universities to achieve national prominence as major research universities. The fund consists of appropriations and transfers under the Texas Constitution and amounts provided by law, gifts, grants and interest. The Texas Constitution required that balances in the permanent higher education fund be transferred to the national research university fund on Jan. 1, 2010. Funds are allocated to eligible universities based on an equitable formula.

The **Permanent Fund Supporting Military and Veterans Exemptions** (Perm Fund Supporting MIL/VET Exempt) was established by the Legislature to receive gifts, grants and investment returns for distributions to higher education institutions to offset the cost of the exemptions to certain veterans and/or dependents. Distributions are determined by the Legislative Budget Board based on each institution's respective share of the aggregate cost to all institutions of the exemptions. The Texas Treasury Safekeeping Trust Company determines the amount available for distribution from the fund.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2016 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund	Perm Fund Supporting MIL/VET Exempt	Other Nonmajor Permanent Funds	Totals
ASSETS					
Cash and Cash Equivalents	$ 14,042	$ 46,421	$ 2,860	$ 1,316	$ 64,639
Short-Term Investments	7,988	37,327	14,443	17,618	77,376
Receivables:					
Interest and Dividends	11	46	9	7	73
Due From Other Funds	1			513	514
Investments	132,888	619,613	226,254	296,100	1,274,855
Total Assets	$ 154,930	$ 703,407	$ 243,566	$ 315,554	$ 1,417,457
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 111	$ 332	$ 122	$ 750	$ 1,315
Due To Other Funds	473	46,421	2,860		49,754
Total Liabilities	584	46,753	2,982	750	51,069
Fund Balances:					
Nonspendable	140,808	656,620		84	797,512
Restricted	2,976	34	240,584	314,720	558,314
Committed	10,562				10,562
Total Fund Balances	154,346	656,654	240,584	314,804	1,366,388
Total Liabilities and Fund Balances	$ 154,930	$ 703,407	$ 243,566	$ 315,554	$ 1,417,457

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund	Perm Fund Supporting MIL/VET Exempt	Other Nonmajor Permanent Funds	Totals
REVENUES					
Interest and Other Investment Income	$ 3,822	$ 17,742	$ 4,659	$ 13,821	$ 40,044
Land Income				10	10
Other				299,302	299,302
Total Revenues	3,822	17,742	4,659	313,133	339,356
EXPENDITURES					
Current:					
General Government	323	1,482	1,463	601	3,869
Education	851			2,051	2,902
Health and Human Services	221				221
Natural Resources and Recreation	3,516			94	3,610
Total Expenditures	4,911	1,482	1,463	2,746	10,602
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,089)	16,260	3,196	310,387	328,754
OTHER FINANCING USES					
Transfer Out	(3,125)	(18,909)	(10,479)	(10)	(32,523)
Total Other Financing Uses	(3,125)	(18,909)	(10,479)	(10)	(32,523)
Net Change in Fund Balances	(4,214)	(2,649)	(7,283)	310,377	296,231
Fund Balances, September 1, 2015	158,560	659,303	247,867	4,427	1,070,157
Fund Balances, August 31, 2016	$ 154,346	$ 656,654	$ 240,584	$ 314,804	$ 1,366,388

Section Two (continued)

Enterprise Funds

Nonmajor Enterprise Funds

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds and water pollution control revolving funds that receive proceeds from bonds issued by the Texas Water Development Board to provide assistance to political subdivisions.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Transportation Commission** receives proceeds from the sale of bonds used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Texas Prepaid Tuition Plans** include the Texas Guaranteed Tuition Plan, which is closed to new enrollment, and the Texas Tuition Promise Fund®. The Texas Tuition Promise Fund allows families to prepay tuition and school-wide required fees at Texas public colleges and universities.

The **Grand Parkway Transportation Corporation**, a blended component unit of the Texas Department of Transportation, is authorized to assist and act on behalf of the agency in the development, financing, design, construction, reconstruction, expansion, operation and/or maintenance of the Grand Parkway toll project.

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds

August 31, 2016 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds	Texas Department of Criminal Justice Institutional Division
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 422,701	$ 35,126	$ 239,791	$	$
Short-Term Investments	809,930		24,995		
Securities Lending Collateral				28,223	
Restricted:					
Cash and Cash Equivalents		176,736	109,713	291,232	
Short-Term Investments		7	7,991	5,003	
Loans and Contracts		23,383		80,987	
Receivables:					
Federal	10,520			10,812	
Accounts		584	12,585	3,363	4,056
Interest and Dividends	156,728	8,632	326	11,505	
Investment Trades					
Other		38			
Due From Other Funds			58,051	432	36,770
Interfund Receivable	150				
Inventories		4	178		9,414
Prepaid Items				2,380	
Loans and Contracts	176,928	2,703			
Other Current Assets		79			
Total Current Assets	1,576,957	247,292	453,630	433,937	50,240
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents					
Investments		644,662	130,006	438,989	
Receivables					
Loans and Contracts		998,198		2,670,046	
Other		44		1,556	
Loans and Contracts	5,575,743	49,794			
Investments		1,809		330	
Interfund Receivable	2,140				
Capital Assets:					
Non-Depreciable or Non-Amortizable			705,506	7,062	283
Depreciable or Amortizable, Net		157	1,991,326	65,507	316
Assets Held in Trust					
Intangible Assets – Service Concession Arrangements					
Total Noncurrent Assets	5,577,883	1,694,664	2,826,838	3,183,490	599
Total Assets	7,154,840	1,941,956	3,280,468	3,617,427	50,839
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Outflows of Resources		15,095	32,022	348,529	
Total Deferred Outflows of Resources	0	15,095	32,022	348,529	0

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds (continued)

August 31, 2016 (Amounts in Thousands)

	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 71,409	$ 45,638	$ 61,150	$ 875,815
Short-Term Investments		5,369		840,294
Securities Lending Collateral	33,423			61,646
Restricted:				
Cash and Cash Equivalents	177,930	254,766	2,000	1,012,377
Short-Term Investments		265,839		278,840
Loans and Contracts				104,370
Receivables:				
Federal				21,332
Accounts		11,329	260	32,177
Interest and Dividends	2,452	263	162	180,068
Investment Trades	42,202			42,202
Other	41		5,278	5,357
Due From Other Funds				95,253
Interfund Receivable				150
Inventories		7	972	10,575
Prepaid Items			927	3,307
Loans and Contracts	32,959		1,788	214,378
Other Current Assets				79
Total Current Assets	360,416	583,211	72,537	3,778,220
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents			34,297	34,297
Investments	1,234,168	50,013	319	2,498,157
Receivables	125,016			125,016
Loans and Contracts				3,668,244
Other				1,600
Loans and Contracts			16,795	5,642,332
Investments		59,976		62,115
Interfund Receivable				2,140
Capital Assets:				
Non-Depreciable or Non-Amortizable			836	713,687
Depreciable or Amortizable, Net			2,552	2,059,858
Assets Held in Trust			14,532	14,532
Intangible Assets – Service Concession Arrangements		2,326,591		2,326,591
Total Noncurrent Assets	1,359,184	2,436,580	69,331	17,148,569
Total Assets	1,719,600	3,019,791	141,868	20,926,789
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources				395,646
Total Deferred Outflows of Resources	0	0	0	395,646

Continued on the following page

Combining Statement of Net Position – Nonmajor Enterprise Funds (continued)

August 31, 2016 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds	Texas Department of Criminal Justice Institutional Division
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	$ 44	$ 1,440	$ 2,487	$ 14,963	$ 6,216
Payroll					1,675
Investment Trades					
Interest	25,503	13,677	4,460	1,782	
Due To Other Funds	2,971			68	661
Interfund Payable		8			
Unearned Revenue		6,239		137	
Obligations/Securities Lending				28,223	
Employees' Compensable Leave		797			1,180
Notes and Loans Payable		215			
General Obligation Bonds Payable	64,678			157,450	
Revenue Bonds Payable	43,599	27,897	20,052		
Liabilities Payable From Restricted Assets					
Other Current Liabilities		408			
Total Current Liabilities	136,795	50,681	26,999	202,623	9,732
Noncurrent Liabilities:					
Employees' Compensable Leave		506			51
Notes and Loans Payable		45,490			
General Obligation Bonds Payable	1,443,316			2,633,621	
Revenue Bonds Payable	1,484,924	1,406,985	2,938,612		
Liabilities Payable From Restricted Assets					
Assets Held for Others					
Hedging Derivative Liability		15,096		348,529	
Other Noncurrent Liabilities		142,349			
Total Noncurrent Liabilities	2,928,240	1,610,426	2,938,612	2,982,150	51
Total Liabilities	3,065,035	1,661,107	2,965,611	3,184,773	9,783
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows of Resources					
Total Deferred Inflows of Resources	0	0	0	0	0
NET POSITION					
Net Investment in Capital Assets		157	637,980	72,569	598
Restricted for:					
Debt Service		208,294	65,439		
Veterans Land Board Housing Programs				152,745	
Other	4,089,805		56,454		
Unrestricted		87,493	(412,994)	555,869	40,458
Total Net Position	$ 4,089,805	$ 295,944	$ 346,879	$ 781,183	$ 41,056

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds (concluded)

August 31, 2016 (Amounts in Thousands)

	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 762	$ 30,680	$ 2,126	$ 58,718
Payroll			2,551	4,226
Investment Trades	43,646			43,646
Interest		46,454		91,876
Due To Other Funds	11	6,545		10,256
Interfund Payable			2	10
Unearned Revenue	1,034		117	7,527
Obligations/Securities Lending	33,423			61,646
Employees' Compensable Leave	63		733	2,773
Notes and Loans Payable		12,100		12,315
General Obligation Bonds Payable				222,128
Revenue Bonds Payable		(330)		91,218
Liabilities Payable From Restricted Assets	298,570			298,570
Other Current Liabilities		5,173		5,581
Total Current Liabilities	377,509	100,622	5,529	910,490
Noncurrent Liabilities:				
Employees' Compensable Leave	75		607	1,239
Notes and Loans Payable		733,465	20,000	798,955
General Obligation Bonds Payable				4,076,937
Revenue Bonds Payable		2,208,001		8,038,522
Liabilities Payable From Restricted Assets	1,892,204			1,892,204
Assets Held for Others			14,532	14,532
Hedging Derivative Liability				363,625
Other Noncurrent Liabilities				142,349
Total Noncurrent Liabilities	1,892,279	2,941,466	35,139	15,328,363
Total Liabilities	2,269,788	3,042,088	40,668	16,238,853
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources		996		996
Total Deferred Inflows of Resources	0	996	0	996
NET POSITION				
Net Investment in Capital Assets			2,335	713,639
Restricted for:				
Debt Service				273,733
Veterans Land Board Housing Programs				152,745
Other		38,707		4,184,966
Unrestricted	(550,188)	(62,000)	98,865	(242,497)
Total Net Position	$ (550,188)	$ (23,293)	$ 101,200	$ 5,082,586

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds	Texas Department of Criminal Justice Institutional Division
OPERATING REVENUES					
Auxiliary Enterprises – Pledged	$	$	$	$	$ 110,451
Other Sales of Goods and Services				8,258	
Other Sales of Goods and Services – Pledged			170,689	25,073	
Interest and Investment Income	191,664	65,526		93,395	
Federal Revenue				57,764	
Other	7,896	26,245	1,546	754	1,287
Total Operating Revenues	199,560	91,771	172,235	185,244	111,738
OPERATING EXPENSES					
Cost of Goods Sold					77,081
Salaries and Wages	4,819	10,292	1,796	97	14,446
Payroll Related Costs	763	3,446			5,485
Professional Fees and Services	6,365	2,384	3,215	82,345	
Travel	58	244	13	147	52
Materials and Supplies	15	422	5,237	3,725	1,224
Communication and Utilities	36	161	928	27	2
Repairs and Maintenance		289	11,420	422	203
Rentals and Leases	54	84	4	1	799
Printing and Reproduction	1	99		4	14
Depreciation and Amortization		48	54,041	4,433	50
Bad Debt Expense		1,730			2
Interest Expense	151,653	57,510		84,393	
Employee/Participant Benefit Payments					
Net Change in Pollution Remediation Obligation				(1,530)	
Other	120	10,179	24,619	5,626	54
Total Operating Expenses	163,884	86,888	101,273	179,690	99,412
Operating Income (Loss)	35,676	4,883	70,962	5,554	12,326

Continued on the following page

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
OPERATING REVENUES				
Auxiliary Enterprises – Pledged	$	$	$	$ 110,451
Other Sales of Goods and Services	38,403		10,522	57,183
Other Sales of Goods and Services – Pledged		78,117		273,879
Interest and Investment Income			642	351,227
Federal Revenue				57,764
Other	1,140	5,773	23,675	68,316
Total Operating Revenues	39,543	83,890	34,839	918,820
OPERATING EXPENSES				
Cost of Goods Sold			1,698	78,779
Salaries and Wages	948	525	13,310	46,233
Payroll Related Costs	268		3,440	13,402
Professional Fees and Services	5,166	578	6,808	106,861
Travel	13	3	198	728
Materials and Supplies	76	299	2,112	13,110
Communication and Utilities	40	178	891	2,263
Repairs and Maintenance	345	1,592	1,182	15,453
Rentals and Leases	26	1	1,519	2,488
Printing and Reproduction	3		76	197
Depreciation and Amortization		62,397	191	121,160
Bad Debt Expense				1,732
Interest Expense			100	293,656
Employee/Participant Benefit Payments	131,961			131,961
Net Change in Pollution Remediation Obligation				(1,530)
Other	25,733	11,227	3,047	80,605
Total Operating Expenses	164,579	76,800	34,572	907,098
Operating Income (Loss)	(125,036)	7,090	267	11,722

Continued on the following page

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds	Texas Department of Criminal Justice Institutional Division
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	$ 215,798	$	$	$ 1,985	$
Gifts				52	
Land Income			12		
Interest and Investment Income (Loss)	(95)		7,702	38,114	
Loan Premium and Fees on Securities Lending Investing Activities Expense					
Interest Expense			(125,516)		
Borrower Rebates and Agent Fees				(61)	
Gain on Sale of Capital Assets					(2)
Settlement of Claims					2
Other Revenues - Pledged	56				
Other Expenses	(48,782)		(17)		
Total Nonoperating Revenues (Expenses)	166,977	0	(117,819)	40,090	0
Income (Loss) Before Capital Contributions and Transfers	202,653	4,883	(46,857)	45,644	12,326
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Capital Contributions – Other			1,870	540	
Transfer In	110,641	2,567	198	381	5,257
Transfer Out	(12,670)			(25,174)	(19,342)
Total Capital Contributions and Transfers	97,971	2,567	2,068	(24,253)	(14,085)
Change in Net Position	300,624	7,450	(44,789)	21,391	(1,759)
Net Position, September 1, 2015	3,789,257	288,494	391,668	759,771	44,654
Restatements	(76)			21	(1,839)
Net Position, September 1, 2015, as Restated	3,789,181	288,494	391,668	759,792	42,815
Net Position, August 31, 2016	$ 4,089,805	$ 295,944	$ 346,879	$ 781,183	$ 41,056

Concluded on the following page

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	$	$	$	$ 217,783
Gifts			208	260
Land Income				12
Interest and Investment Income (Loss)	59,732	2,136	141	107,730
Loan Premium and Fees on Securities Lending	148			148
Investing Activities Expense	(371)			(371)
Interest Expense		(48,593)		(174,109)
Borrower Rebates and Agent Fees	(34)		(1)	(96)
Gain on Sale of Capital Assets				(2)
Settlement of Claims				2
Other Revenues - Pledged				56
Other Expenses		(536)	(2)	(49,337)
Total Nonoperating Revenues (Expenses)	59,475	(46,993)	346	102,076
Income (Loss) Before Capital Contributions and Transfers	(65,561)	(39,903)	613	113,798
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital Contributions – Other				2,410
Transfer In			1,240	120,284
Transfer Out			(170)	(57,356)
Total Capital Contributions and Transfers	0	0	1,070	65,338
Change in Net Position	(65,561)	(39,903)	1,683	179,136
Net Position, September 1, 2015	(484,627)	16,610	99,517	4,905,344
Restatements				(1,894)
Net Position, September 1, 2015, as Restated	(484,627)	16,610	99,517	4,903,450
Net Position, August 31, 2016	$ (550,188)	$ (23,293)	$ 101,200	$ 5,082,586

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds	Texas Department of Criminal Justice Institutional Division
CASH FLOWS FROM OPERATING ACTIVITIES					
Proceeds from Customers	$	$	$ 174,289	$ 91,285	$ 109,723
Proceeds from Gifts				52	
Proceeds from Loan Programs		118,450		596,014	
Proceeds from Other Operating Revenues	56	45,256		1,240	1,287
Payments to Suppliers for Goods and Services	(23)	(64,646)	(43,700)	(90,158)	(75,857)
Payments to Employees	(6,085)	(13,419)		(97)	(19,979)
Payments for Loans Provided		(12,545)		(808,110)	
Payments for Other Operating Expenses				(146)	(2,349)
Net Cash Provided (Used) by Operating Activities	(6,052)	73,096	130,589	(209,920)	12,825
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from Debt Issuance	1,208,091	240,581		250,000	
Proceeds from Transfers from Other Funds	361,624	2,816	197	125,025	5,257
Proceeds from Interfund Payables	27,308				
Proceeds from Grant Receipts	215,427				
Proceeds from Other Noncapital Financing Activities					
Payments of Principal on Debt Issuance	(123,133)	(251,885)		(139,794)	
Payments of Interest	(127,728)	(59,327)		(85,736)	
Payments of Other Costs on Debt Issuance	(170)	(2,223)			
Payments for Transfers to Other Funds	(303,770)		(12,500)	(150,320)	(18,034)
Payments for Grant Disbursements	(69,448)				
Payments for Interfund Receivables	(48,400)				
Payments for Other Noncapital Financing Uses			(959)		
Net Cash Provided (Used) by Noncapital Financing Activities	1,139,801	(70,038)	(13,262)	(825)	(12,777)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets			53		
Proceeds from Federal Grants and Contracts				1,983	
Proceeds from Other Capital and Related Financing Activities			12		
Payments for Additions to Capital Assets		(49)		(7,590)	(49)
Payments of Principal on Debt Issuance			(1,745)		
Payments for Capital Leases					
Payments of Interest on Debt Issuance			(107,051)		
Payments of Other Costs on Debt Issuance			(17)		
Net Cash (Used) by Capital and Related Financing Activities	0	(49)	(108,748)	(5,607)	(49)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	854,067	166,145	212,260	209,350	19,199
Proceeds from Interest and Investment Income	191,133	31,341	7,320	9,658	40
Proceeds from Principal Payments on Loans	450,777				
Payments to Acquire Investments	(960,595)	(123,436)	(229,961)	(89,351)	(19,238)
Payments for Nonprogram Loans Provided	(1,482,225)				
Net Cash Provided (Used) by Investing Activities	(946,843)	74,050	(10,381)	129,657	1
Net Increase (Decrease) in Cash and Cash Equivalents	186,906	77,059	(1,802)	(86,695)	0
Cash and Cash Equivalents, September 1, 2015	235,871	134,803	120,181	377,927	0
Restatements	(76)		231,125		
Cash and Cash Equivalents, September 1, 2015, as Restated	235,795	134,803	351,306	377,927	0
Cash and Cash Equivalents, August 31, 2016	$ 422,701	$ 211,862	$ 349,504	$ 291,232	$ 0

Continued on the following page

Combining Statement of Cash Flows – Nonmajor Enterprise Funds (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Proceeds from Customers	$ 59,546	$ 77,488	$ 11,525	$ 523,856
Proceeds from Gifts				52
Proceeds from Loan Programs				714,464
Proceeds from Other Operating Revenues	766	3,084	22,304	73,993
Payments to Suppliers for Goods and Services	(5,784)	(16,136)	(1,691)	(297,995)
Payments to Employees	(1,196)		(16,168)	(56,944)
Payments for Loans Provided				(820,655)
Payments for Other Operating Expenses	(213,169)		(15,850)	(231,514)
Net Cash Provided (Used) by Operating Activities	(159,837)	64,436	120	(94,743)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance				1,698,672
Proceeds from Transfers from Other Funds			4,607	499,526
Proceeds from Interfund Payables				27,308
Proceeds from Grant Receipts				215,427
Proceeds from Other Noncapital Financing Activities			208	208
Payments of Principal on Debt Issuance			(5,000)	(519,812)
Payments of Interest		(111,136)	(100)	(384,027)
Payments of Other Costs on Debt Issuance		(16)		(2,409)
Payments for Transfers to Other Funds		(45,558)	(3,538)	(533,720)
Payments for Grant Disbursements				(69,448)
Payments for Interfund Receivables				(48,400)
Payments for Other Noncapital Financing Uses		(279,722)		(280,681)
Net Cash Provided (Used) by Noncapital Financing Activities	0	(436,432)	(3,823)	602,644
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Capital Assets				53
Proceeds from Federal Grants and Contracts				1,983
Proceeds from Other Capital and Related Financing Activities				12
Payments for Additions to Capital Assets			(204)	(7,892)
Payments of Principal on Debt Issuance				(1,745)
Payments for Capital Leases			(1,670)	(1,670)
Payments of Interest on Debt Issuance				(107,051)
Payments of Other Costs on Debt Issuance				(17)
Net Cash (Used) by Capital and Related Financing Activities	0	0	(1,874)	(116,327)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments	476,425	1,231,864		3,169,310
Proceeds from Interest and Investment Income	45,810	3,130	763	289,195
Proceeds from Principal Payments on Loans			1,773	452,550
Payments to Acquire Investments	(410,742)	(783,834)	(62)	(2,617,219)
Payments for Nonprogram Loans Provided				(1,482,225)
Net Cash Provided (Used) by Investing Activities	111,493	451,160	2,474	(188,389)
Net Increase (Decrease) in Cash and Cash Equivalents	(48,344)	79,164	(3,103)	203,185
Cash and Cash Equivalents, September 1, 2015	297,683	221,240	100,550	1,488,255
Restatements				231,049
Cash and Cash Equivalents, September 1, 2015, as Restated	297,683	221,240	100,550	1,719,304
Cash and Cash Equivalents, August 31, 2016	$ 249,339	$ 300,404	$ 97,447	$ 1,922,489

Continued on the following page

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds	Texas Department of Criminal Justice Institutional Division
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	$ 35,676	$ 4,883	$ 70,962	$ 5,554	$ 12,326
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation and Amortization		48	54,041	4,433	50
Bad Debt Expense		1,730			2
Operating Income (Loss) and Cash Flow Categories Classification Differences	(22,773)	(3,513)		89,093	
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables		3,355	2,158	(789)	(758)
(Increase) Decrease in Due From Other Funds					29
(Increase) Decrease in Inventories			941		733
(Increase) Decrease in Loans and Contracts		14,553		(309,618)	
(Increase) Decrease in Other Assets		909		9,221	
(Increase) Decrease in Prepaid Expenses				(2,380)	
Increase (Decrease) in Payables	(18,955)	(3,555)	2,487	3,177	259
Increase (Decrease) in Deposits					
Increase (Decrease) in Due To Other Funds					232
Increase (Decrease) in Unearned Revenue		138			
Increase (Decrease) in Employees' Compensable Leave					(48)
Increase (Decrease) in Other Liabilities		54,548		(8,611)	
Total Adjustments	(41,728)	68,213	59,627	(215,474)	499
Net Cash Provided (Used) by Operating Activities	$ (6,052)	$ 73,096	$ 130,589	$ (209,920)	$ 12,825
NONCASH TRANSACTIONS					
Donation of Capital Assets	$	$	$ 1,870	$	$
Net Change in Fair Value of Investments	$ 1,447	$ (3,711)	$ (169)	$ 22,917	$
Other	$	$	$ 270	$ (1,557)	$

Concluded on the following page

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ (125,036)	$ 7,090	$ 267	$ 11,722
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization		62,397	191	121,160
Bad Debt Expense				1,732
Operating Income (Loss) and Cash Flow Categories Classification Differences			(544)	62,263
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(730)	(6,401)	(1,515)	(4,680)
(Increase) Decrease in Due From Other Funds			1,011	1,040
(Increase) Decrease in Inventories		(7)	207	1,874
(Increase) Decrease in Loans and Contracts				(295,065)
(Increase) Decrease in Other Assets				10,130
(Increase) Decrease in Prepaid Expenses		4	(649)	(3,025)
Increase (Decrease) in Payables	(33,918)	2,632	1,502	(46,371)
Increase (Decrease) in Deposits		3,084		3,084
Increase (Decrease) in Due To Other Funds		(4,363)	(421)	(4,552)
Increase (Decrease) in Unearned Revenue	(174)		29	(7)
Increase (Decrease) in Employees' Compensable Leave	9		5	(34)
Increase (Decrease) in Other Liabilities	12		37	45,986
Total Adjustments	(34,801)	57,346	(147)	(106,465)
Net Cash Provided (Used) by Operating Activities	$ (159,837)	$ 64,436	$ 120	$ (94,743)
NONCASH TRANSACTIONS				
Donation of Capital Assets	$	$	$	$ 1,870
Net Change in Fair Value of Investments	$ 14,620	$ (6)	$	$ 35,098
Other	$	$ 739	$	$ (548)

Colleges and Universities – Major Enterprise Fund

There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules were prepared to report the breakdown of the following universities:

University of Texas System
Texas A&M University System
Texas Tech University System
University of Houston System
Texas State University System
University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

STATE OF TEXAS

Schedule of Net Position
Colleges and Universities – Major Enterprise Fund

August 31, 2016 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System	University of North Texas System
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 2,545,094	$ 820,667	$ 238,061	$ 157,103	$ 464,140	$ 183,437
Short-Term Investments				217,212		
Securities Lending Collateral	729,335					
Restricted:						
Cash and Cash Equivalents	326,642	449,195	123,824	204,656	65,387	20,217
Short-Term Investments					28,860	45,062
Receivables:						
Federal	493,365	120,183	15,427	33,241	13,765	32,992
Other Intergovernmental	119,073	4,720				1,525
Accounts	1,372,914	184,962	80,844	41,567	118,980	79,443
Interest and Dividends	60,028	8,060	1,082	752	137	2,163
Gifts	130,286	71,643	33,564	53,319	6,159	2,236
Investment Trades	418,024	69,067			2,910	
Other	405,064	3,662	9,691	1,880	7,688	14,764
Due From Other Funds	211,637	157,516	190,964	143,020	73,392	111,387
Interfund Receivable		48,475				
Inventories	116,642	24,972	3,932	1,794	5,111	3,187
Prepaid Items			57,098	44,206	41,047	45,789
Loans and Contracts	70,220	23,578	1,574	18,480	15,039	2,782
Other Current Assets	233,741	115,681	449		13,051	
Total Current Assets	7,232,065	2,102,381	756,510	917,230	855,666	544,984
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	4,974		24,644		21,851	
Short-Term Investments						
Investments	35,899,086	1,007,236	403,617		178,251	60,371
Receivables				47,464	1,425	
Loans and Contracts	77,762	4,259	4,185	5,474		
Other						
Loans and Contracts		17,174	4,063		537	5,059
Investments	6,759,353	2,803,494	1,410,629	808,606	197,924	166,505
Interfund Receivable		971,261				
Gifts Receivable	209,953	455,591	81,128		2,372	1,650
Capital Assets:						
Non-Depreciable or Non-Amortizable	2,745,274	1,146,452	154,496	271,351	271,700	141,421
Depreciable or Amortizable, Net	12,864,454	3,875,416	1,344,710	1,153,954	1,279,149	883,583
Assets Held in Trust		362				
Other Noncurrent Assets	146,260	7,746				
Total Noncurrent Assets	58,707,116	10,288,991	3,427,472	2,286,849	1,953,209	1,258,589
Total Assets	65,939,181	12,391,372	4,183,982	3,204,079	2,808,875	1,803,573
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources	951,908	145,270	38,050	35,386	28,764	25,854
Total Deferred Outflows of Resources	951,908	145,270	38,050	35,386	28,764	25,854

Continued on the following page

STATE OF TEXAS

Schedule of Net Position
Colleges and Universities – Major Enterprise Fund (continued)

August 31, 2016 (Amounts in Thousands)

	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 11,673	$ 74,555	$ 24,291	$ 3,297	$ 40,210	$ 4,562,528
Short-Term Investments	79,662	580		8,765	2,443	308,662
Securities Lending Collateral						729,335
Restricted:						
Cash and Cash Equivalents	26,675	11,098	18,474	4,821	2,688	1,253,677
Short-Term Investments	10,849	497	2,556		55,678	143,502
Receivables:						
Federal	2,163	11,509	4,603	151	8,056	735,455
Other Intergovernmental		231	4,515	436		130,500
Accounts	17,569	15,668	28,137	9,980	11,234	1,961,298
Interest and Dividends	499	4			18	72,743
Gifts		4		393		297,604
Investment Trades						490,001
Other	5,216		730	1,542		450,237
Due From Other Funds	45,860	5,042	10,259	2,046	13,144	964,267
Interfund Receivable						48,475
Inventories	1,607	894	515	197	2,264	161,115
Prepaid Items	510	13,601		9,616		211,867
Loans and Contracts	5,811	2,954				140,438
Other Current Assets						362,922
Total Current Assets	208,094	136,637	94,080	41,244	135,735	13,024,626
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents					110	51,579
Short-Term Investments				8,360	462	8,822
Investments	14,587	11,579	48,615	5,593		37,628,935
Receivables		1,546				50,435
Loans and Contracts		3,598	522			95,800
Other			11,709			11,709
Loans and Contracts						26,833
Investments	136,817	49,942		41,570		12,374,840
Interfund Receivable						971,261
Gifts Receivable				2,281		752,975
Capital Assets:						
Non-Depreciable or Non-Amortizable	12,131	11,685	20,252	12,010	23,762	4,810,534
Depreciable or Amortizable, Net	188,612	190,350	261,981	135,908	145,846	22,323,963
Assets Held in Trust						362
Other Noncurrent Assets				807		154,813
Total Noncurrent Assets	352,147	268,700	343,079	206,529	170,180	79,262,861
Total Assets	560,241	405,337	437,159	247,773	305,915	92,287,487
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources	4,637	19,222	3,222	2,588	3,916	1,258,817
Total Deferred Outflows of Resources	4,637	19,222	3,222	2,588	3,916	1,258,817

Continued on the following page

STATE OF TEXAS

Schedule of Net Position
Colleges and Universities – Major Enterprise Fund (continued)

August 31, 2016 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System	University of North Texas System
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 1,178,417	$ 205,608	$ 52,938	$ 45,870	$ 54,258	$ 52,444
Payroll	548,226	135,705	80,566	65,192	33,795	48,435
Other Intergovernmental	26				88	
Federal	53,517			59	1	
Investment Trades	579,420	122,135			1,308	
Interest					15,396	8,910
Due To Other Funds	22,025	2,029	1,529	831	1,922	335
Interfund Payable	49,709	2,953				
Unearned Revenue	1,483,728	547,638	212,206	239,210	379,922	230,019
Obligations/Securities Lending	729,335					
Short-Term Debt	852,096		30,279	54,472	162	20,150
Claims and Judgments	104,109	3,619	2,043	256		891
Capital Lease Obligations	5,355	5,388		538		1,249
Employees' Compensable Leave	384,367	11,406	5,649	13,054	12,418	4,303
Notes and Loans Payable	31,632	29,509	21,817		1,235	
General Obligation Bonds Payable						
Revenue Bonds Payable	1,561,116	181,865	43,294	59,890	49,141	33,843
Liabilities Payable from Restricted Assets		26,493				
Funds Held for Others	19,287	57,617	22,037	26,640	5,082	2,467
Other Current Liabilities	121,490	28,669	19,218	2,870	1,391	4,902
Total Current Liabilities	7,723,855	1,360,634	491,576	508,882	556,119	407,948
Noncurrent Liabilities:						
Interfund Payable	975,701	7,362				
Claims and Judgments	28,382	7,564	8,642			960
Capital Lease Obligations	9,037	36,136		6,760		2,663
Employees' Compensable Leave	210,801	101,885	41,047	13,254	12,380	20,379
Notes and Loans Payable	1,023,391	151,453			3,677	
General Obligation Bonds Payable						
Revenue Bonds Payable	6,485,798	3,227,306	532,807	995,463	810,164	514,046
Liabilities Payable from Restricted Assets		20,923				
Pollution Remediation Obligation			1,023			
Assets Held for Others	742,538	80,250				
Net OPEB Obligation	4,647,431	1,117,799				
Net Pension Liability	2,744,694	399,242	186,671	177,321	146,672	118,375
Hedging Derivative Liability	338,726					
Investment Derivative Instrument	233,840					
Other Noncurrent Liabilities	36,401	61,022	313		1,591	
Total Noncurrent Liabilities	17,476,740	5,210,942	770,503	1,192,798	974,484	656,423
Total Liabilities	25,200,595	6,571,576	1,262,079	1,701,680	1,530,603	1,064,371
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources	404,159	72,953	31,961	27,738	17,790	22,123
Total Deferred Inflows of Resources	404,159	72,953	31,961	27,738	17,790	22,123
NET POSITION						
Net Investment in Capital Assets	6,375,856	1,724,453	900,672	552,445	691,545	465,252
Restricted for:						
Education	2,142,574	367,760	388,247	221,105	53,462	39,135
Debt Service	14,369	340	32,695	2,622	1,648	
Capital Projects	169,348	552,993	27,901	27,860	38,204	
Funds Held as Permanent Investments:						
Nonexpendable	21,530,532	382,662	670,409	415,236	125,376	46,960
Expendable	8,858,004	317,750	53,349	45,567	58,312	18,160
Unrestricted	2,195,652	2,546,155	854,719	245,212	320,699	173,426
Total Net Position	$ 41,286,335	$ 5,892,113	$ 2,927,992	$ 1,510,047	$ 1,289,246	$ 742,933

Concluded on the following page

STATE OF TEXAS

Schedule of Net Position
Colleges and Universities – Major Enterprise Fund (concluded)

August 31, 2016 (Amounts in Thousands)

	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 3,481	$ 3,231	$ 14,937	$ 7,837	$ 6,818	$ 1,625,839
Payroll	5,641	10,599	5,307	4,707	7,067	945,240
Other Intergovernmental	2,550		10,212			12,876
Federal	2,092				98	55,767
Investment Trades						702,863
Interest		1,706	1,572		1,353	28,937
Due To Other Funds	745	390	83			29,889
Interfund Payable		1,507		272	698	55,139
Unearned Revenue	41,831	71,506	58,997	29,046	18,212	3,312,315
Obligations/Securities Lending						729,335
Short-Term Debt						957,159
Claims and Judgments						110,918
Capital Lease Obligations	277	58		34	474	13,373
Employees' Compensable Leave	2,348	438	2,961	199	748	437,891
Notes and Loans Payable		1,120	4,661		120	90,094
General Obligation Bonds Payable		1,105			2,312	3,417
Revenue Bonds Payable	6,103	10,190	8,952	4,456	5,308	1,964,158
Liabilities Payable from Restricted Assets						26,493
Funds Held for Others		11,553	40	151	3,812	148,686
Other Current Liabilities	1,434	4,014		64	1,521	185,573
Total Current Liabilities	66,502	117,417	107,722	46,766	48,541	11,435,962
Noncurrent Liabilities:						
Interfund Payable		5,905		985	4,937	994,890
Claims and Judgments						45,548
Capital Lease Obligations	144	267			2,077	57,084
Employees' Compensable Leave	1,498	4,058	3,551	1,510	4,577	414,940
Notes and Loans Payable		12,374	101,508		1,480	1,293,883
General Obligation Bonds Payable		2,345			24,988	27,333
Revenue Bonds Payable	78,981	112,593	59,496	102,193	93,165	13,012,012
Liabilities Payable from Restricted Assets						20,923
Pollution Remediation Obligation						1,023
Assets Held for Others	122					822,910
Net OPEB Obligation						5,765,230
Net Pension Liability	22,874	39,842	20,231	9,618	12,486	3,878,026
Hedging Derivative Liability						338,726
Investment Derivative Instrument						233,840
Other Noncurrent Liabilities	(122)		804	193		100,202
Total Noncurrent Liabilities	103,497	177,384	185,590	114,499	143,710	27,006,570
Total Liabilities	169,999	294,801	293,312	161,265	192,251	38,442,532
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources	4,269	2,954	3,892	1,071	3,697	592,607
Total Deferred Inflows of Resources	4,269	2,954	3,892	1,071	3,697	592,607
NET POSITION						
Net Investment in Capital Assets	117,918	54,714	112,875	45,998	91,391	11,133,119
Restricted for:						
Education	27,103	20,911	1,398		768	3,262,463
Debt Service	4,602		790			57,066
Capital Projects	89,542			421	1,085	907,354
Funds Held as Permanent Investments:						
Nonexpendable	14,284	5,383	49,299	4,707	572	23,245,420
Expendable		2,456		11,701		9,365,299
Unrestricted	137,161	43,340	(21,185)	25,198	20,067	6,540,444
Total Net Position	$ 390,610	$ 126,804	$ 143,177	$ 88,025	$ 113,883	$ 54,511,165

Schedule of Revenues, Expenses and Changes in Net Position
Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System	University of North Texas System
OPERATING REVENUES						
Tuition Revenue	$	$ 65,713	$ 11,434	$	$	$ 67,346
Tuition Revenue – Pledged	2,235,084	1,266,637	505,286	658,509	721,079	367,531
Discounts and Allowances	(581,311)	(311,240)	(112,215)	(132,392)	(184,824)	(93,363)
Hospital Revenue – Pledged	12,549,693					
Discounts and Allowances	(7,181,552)					
Professional Fees	5,563,300	122	292,005			
Professional Fees – Pledged		1,717	682			110,947
Discounts and Allowances	(3,865,542)		(30,532)			(69,634)
Auxiliary Enterprises						
Auxiliary Enterprises – Pledged	574,647	337,293	164,792	107,018	157,926	65,894
Discounts and Allowances	(16,101)	(32,670)		(12,458)		(148)
Other Sales of Goods and Services		12,276	8,514			
Other Sales of Goods and Services – Pledged	485,752	291,114	12,411	59,951	23,488	73,905
Discounts and Allowances	(238)	(5,975)				
Interest and Investment Income		3,408			207	
Interest and Investment Income – Pledged						
Federal Revenue	1,283,414	396,739	61,640	68,998	36,344	46,176
State Grant Revenue		5,219	4,169	11,125	5,238	3,040
Other Operating Grant Revenue	443,124	262,616	212,504		10,477	24,989
Other Operating Grant Revenue – Pledged	957,324	31,746	4,119	26,287		
Other Revenues	12,181	20,738	31,433		691	
Other Revenues – Pledged	399,565	58,723		1,267	12,582	2,173
Total Operating Revenues	12,859,340	2,404,176	1,166,242	788,305	783,208	598,856
OPERATING EXPENSES						
Cost of Goods Sold	144,132	7,937	14,072	2,664	7,044	3,813
Salaries and Wages	7,959,486	1,763,684	884,349	624,524	551,921	453,084
Payroll Related Costs	2,009,677	422,387	207,797	154,951	143,730	102,954
Professional Fees and Services	547,769	390,393	76,200	93,490	66,236	63,196
Travel	148,161	84,929	33,651	17,387	23,148	12,395
Materials and Supplies	1,761,654	245,732	77,385	43,381	102,861	44,466
Communication and Utilities	370,506	134,162	51,109	47,492	37,684	19,761
Repairs and Maintenance	317,123	166,072	39,020	18,279	21,796	33,393
Rentals and Leases	161,900	75,894	18,063	39,872	7,665	14,573
Printing and Reproduction	37,045	13,211	5,448	4,238	4,656	5,556
Depreciation and Amortization	1,307,689	314,922	122,625	97,314	91,371	65,900
Bad Debt Expense	21,085	689	(191)		2,019	
Interest Expense		103	23	134	11	
Scholarships	428,509	236,809	77,794	102,550	132,815	77,452
Claims and Judgments	18,939	631	4,976	985	180	842
Net Change in Pollution Remediation Obligation			1,023			
Net Change in OPEB Obligations	662,455	133,925				
Other Expenses	1,315,000	274,812	157,790	53,680	34,734	29,738
Total Operating Expenses	17,211,130	4,266,292	1,771,134	1,300,941	1,227,871	927,123
Operating Loss	(4,351,790)	(1,862,116)	(604,892)	(512,636)	(444,663)	(328,267)

Continued on the following page

Schedule of Revenues, Expenses and Changes in Net Position
Colleges and Universities – Major Enterprise Fund (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
OPERATING REVENUES						
Tuition Revenue	$	$ 4,073	$	$	$ 9,119	$ 157,685
Tuition Revenue – Pledged	109,954	107,821	95,702	47,289	32,778	6,147,670
Discounts and Allowances	(31,440)	(28,095)	(29,664)	(12,964)	(22,535)	(1,540,043)
Hospital Revenue – Pledged						12,549,693
Discounts and Allowances						(7,181,552)
Professional Fees						5,855,427
Professional Fees – Pledged						113,346
Discounts and Allowances						(3,965,708)
Auxiliary Enterprises		2,249			883	3,132
Auxiliary Enterprises – Pledged	29,110	39,528	12,346	10,594	12,043	1,511,191
Discounts and Allowances	(6,488)	(9,546)			(4,015)	(81,426)
Other Sales of Goods and Services		944				21,734
Other Sales of Goods and Services – Pledged		5,600	125	1,467	8,093	961,906
Discounts and Allowances						(6,213)
Interest and Investment Income					3	3,618
Interest and Investment Income – Pledged					52	52
Federal Revenue	1,715	3,576	17,965	713	2,217	1,919,497
State Grant Revenue			1,720			30,511
Other Operating Grant Revenue	3,697	947		633	1,580	960,567
Other Operating Grant Revenue – Pledged			592			1,020,068
Other Revenues	1,679	71				66,793
Other Revenues – Pledged		60	4,598	1,362		480,330
Total Operating Revenues	108,227	127,228	103,384	49,094	40,218	19,028,278
OPERATING EXPENSES						
Cost of Goods Sold	16	9,788			3,513	192,979
Salaries and Wages	97,828	94,897	88,818	40,741	74,558	12,633,890
Payroll Related Costs	26,213	32,075	24,663	12,455	27,067	3,163,969
Professional Fees and Services	2,794	1,788	5,467	4,752	1,039	1,253,124
Travel	2,613	3,133	3,004	2,010	1,011	331,442
Materials and Supplies	14,101	12,967	9,165	5,821	13,453	2,330,986
Communication and Utilities	6,851	8,383	5,581	2,572	5,804	689,905
Repairs and Maintenance	6,634	6,492	5,907	3,266	2,317	620,299
Rentals and Leases	2,270	3,071	1,452	1,584	2,646	328,990
Printing and Reproduction	474	450	644	157	25	71,904
Depreciation and Amortization	15,290	16,264	17,375	13,037	10,980	2,072,767
Bad Debt Expense	933		2,402	328		27,265
Interest Expense		3		2	6	282
Scholarships	13,336	20,345	18,923	11,325	8,862	1,128,720
Claims and Judgments		4			116	26,673
Net Change in Pollution Remediation Obligation						1,023
Net Change in OPEB Obligations						796,380
Other Expenses	8,178	8,097	12,183		7,712	1,901,924
Total Operating Expenses	197,531	217,757	195,584	98,050	159,109	27,572,522
Operating Loss	(89,304)	(90,529)	(92,200)	(48,956)	(118,891)	(8,544,244)

Continued on the following page

Schedule of Revenues, Expenses and Changes in Net Position
Colleges and Universities – Major Enterprise Fund (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System	University of North Texas System
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	$ 325,671	$ 215,821	$ 45,116	$ 102,908	$ 114,386	$ 51,088
Gifts	464,743	140,138	99,948		29,245	11,527
Gifts – Pledged	28,406	40,069	2,232	62,276	9,291	
Land Income						
Interest and Investment Income	2,521,942	154,307	28,421		13,069	11,583
Interest and Investment Income – Pledged	367,232	82,552	24,899	21,343	1,321	4,498
Investing Activities Expense	(116,909)	(11,780)			(53)	
Interest Expense	(277,862)	(158,763)	(17,742)	(39,009)	(34,630)	(20,646)
Borrower Rebates and Agent Fees	(1,698)	(5,091)				
Gain (Loss) on Sale of Capital Assets	(23,951)	(3,597)	(1,636)		(430)	1,043
Settlement of Claims					693	
Claims and Judgments		(706)				
Other Revenues	32,910	18,493	7,302		2,378	
Other Revenues – Pledged	33,662	8,120	1,842	11,012	(1,416)	397
Other Expenses	(10,912)	(40,377)	(1,119)	(21,276)		(7,900)
Total Nonoperating Revenues (Expenses)	3,343,234	439,186	189,263	137,254	133,854	51,590
Loss Before Capital Contributions, Endowments and Transfers	(1,008,556)	(1,422,930)	(415,629)	(375,382)	(310,809)	(276,677)
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	1,691				363	
Capital Contributions – Other	48,840	7,183	5,836		11	1,718
Contributions to Permanent and Term Endowments	169,125	2,939	20,686	18,317	5,753	258
Transfer In	2,778,048	1,604,321	587,048	420,194	432,042	323,299
Transfer Out	(382,958)	(10,798)	(2,199)	(2,945)	(1,305)	(1,123)
Total Capital Contributions, Endowments and Transfers	2,614,746	1,603,645	611,371	435,566	436,864	324,152
Change in Net Position	1,606,190	180,715	195,742	60,184	126,055	47,475
Net Position, September 1, 2015	34,447,451	5,677,973	2,727,597	1,448,965	1,163,185	701,743
Restatements	5,232,694	33,425	4,653	898	6	(6,285)
Net Position, September 1, 2015, as Restated	39,680,145	5,711,398	2,732,250	1,449,863	1,163,191	695,458
Net Position, August 31, 2016	$ 41,286,335	$ 5,892,113	$ 2,927,992	$ 1,510,047	$ 1,289,246	$ 742,933

Concluded on the following page

Schedule of Revenues, Expenses and Changes in Net Position
Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	$ 20,225	$ 20,814	$ 21,788	$ 8,529	$ 19,820	$ 946,166
Gifts	2,877	4,569		5,586	257	758,890
Gifts – Pledged		(26)	926		1,084	144,258
Land Income		133				133
Interest and Investment Income	8,574	601			79	2,738,576
Interest and Investment Income – Pledged	5,319	2,212	6,549	2,731	206	518,862
Investing Activities Expense		(246)	(209)			(129,197)
Interest Expense	(2,764)	(4,625)	(4,913)	(3,820)	(2,663)	(567,437)
Borrower Rebates and Agent Fees						(6,789)
Gain (Loss) on Sale of Capital Assets	(112)	(186)		(29)	(152)	(29,050)
Settlement of Claims		153				846
Claims and Judgments						(706)
Other Revenues	1,523	138		158	2	62,904
Other Revenues – Pledged						53,617
Other Expenses	(265)		(223)		(2,309)	(84,381)
Total Nonoperating Revenues (Expenses)	35,377	23,537	23,918	13,155	16,324	4,406,692
Loss Before Capital Contributions, Endowments and Transfers	(53,927)	(66,992)	(68,282)	(35,801)	(102,567)	(4,137,552)
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal						2,054
Capital Contributions – Other		1,808		23	4,117	69,536
Contributions to Permanent and Term Endowments		35	320	250		217,683
Transfer In	79,598	69,471	78,561	35,142	103,937	6,511,661
Transfer Out	(1,537)		(784)	(485)	(1,322)	(405,456)
Total Capital Contributions, Endowments and Transfers	78,061	71,314	78,097	34,930	106,732	6,395,478
Change in Net Position	24,134	4,322	9,815	(871)	4,165	2,257,926
Net Position, September 1, 2015	366,598	122,622	133,362	88,896	109,721	46,988,113
Restatements	(122)	(140)			(3)	5,265,126
Net Position, September 1, 2015, as Restated	366,476	122,482	133,362	88,896	109,718	52,253,239
Net Position, August 31, 2016	$ 390,610	$ 126,804	$ 143,177	$ 88,025	$ 113,883	$ 54,511,165

STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System	University of North Texas System
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds from Customers	$ 6,968,034	$ 298,516	$ 317,878	$ 81,717	$ 16,038	$ 112,898
Proceeds from Tuition and Fees	1,679,338	1,003,194	401,495	534,640	540,380	358,487
Proceeds from Research Grants and Contracts	2,520,333	760,621	285,222	108,981	52,009	72,209
Proceeds from Loan Programs	153,297	8,493	4,779	146,430	22,383	251
Proceeds from Auxiliaries	576,799	304,733	165,953	99,558	157,972	65,713
Proceeds from Other Operating Revenues	744,343	111,303		1,267	22,459	2,123
Payments to Suppliers for Goods and Services	(5,266,969)	(1,338,681)	(267,370)	(301,183)	(364,021)	(286,330)
Payments to Employees	(9,890,526)	(2,179,853)	(1,036,709)	(714,955)	(665,828)	(531,416)
Payments for Loans Provided	(168,012)	(7,825)	(4,365)	(143,710)	(23,597)	(626)
Payments for Other Operating Expenses		(333,566)	(319,629)	(161,562)	(110,257)	(88,262)
Net Cash (Used) by Operating Activities	(2,683,363)	(1,373,065)	(452,746)	(348,817)	(352,462)	(294,953)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Gifts	505,457	186,277	81,520	67,901	38,941	12,367
Proceeds from Endowments	359,454	2,939		18,317	5,110	258
Proceeds from Transfers from Other Funds	3,578,058	1,545,922	513,623	391,514	429,962	295,389
Proceeds from Loan Programs						
Proceeds from Grant Receipts	403,497	251,654	44,792	104,417	116,614	51,083
Proceeds from Other Noncapital Financing Activities	6,760	186,425	281,821		3,749	2,468
Payments of Interest		(478)				
Payments for Transfers to Other Funds	(1,733,289)	(9,020)	(390)	(10,931)	(672)	(93)
Payments for Grant Disbursements						
Payments for Other Noncapital Financing Uses	(5,179)	(97,772)	(276,306)		(15,990)	(4)
Net Cash Provided by Noncapital Financing Activities	3,114,758	2,065,947	645,060	571,218	577,714	361,468
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	15,967	1,925	629		611	2,708
Proceeds from Debt Issuance	2,338,305	1,237,886	34,800	285,000	2,588	261,586
Proceeds from State Grants and Contracts		28,996				
Proceeds from Federal Grants and Contracts					379	
Proceeds from Gifts					1,000	
Proceeds from Other Capital and Related Financing Activities		1,499	35	32,307	29,596	
Proceeds from Capital Contributions	106,681		38,966	51,203	11,564	452
Proceeds from Interfund Payables					79,930	
Payments for Additions to Capital Assets	(2,087,538)	(721,254)	(151,031)	(160,316)	(219,241)	(75,002)
Payments of Principal on Debt Issuance	(934,921)	(954,358)	(44,642)	(117,540)	(88,669)	(235,340)
Payments for Capital Leases		(932)			(917)	(1,180)
Payments of Interest on Debt Issuance	(306,644)	(187,940)	(22,136)	(41,803)	(72,847)	(21,849)
Payments of Other Costs on Debt Issuance	(7,784)	(6,547)		(47,667)		(1,251)
Payments for Interfund Receivables		(2,711)			(93)	
Net Cash Provided (Used) by Capital and Related Financing Activities	(875,934)	(603,436)	(143,379)	1,184	(256,099)	(69,876)

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STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds from Customers	$	$ 6,553	$	$	$ 7,451	$ 7,809,085
Proceeds from Tuition and Fees	75,225	86,013	63,742	33,105	22,426	4,798,045
Proceeds from Research Grants and Contracts	5,273	4,541	24,774	1,295	3,411	3,838,669
Proceeds from Loan Programs		101		51		335,785
Proceeds from Auxiliaries	22,622	32,666	12,346	11,407	8,815	1,458,584
Proceeds from Other Operating Revenues	2,534	60	9,949	2,829		896,867
Payments to Suppliers for Goods and Services	(52,913)	(63,136)	(5,374)	(22,012)	(44,710)	(8,012,699)
Payments to Employees	(114,903)	(116,119)	(114,292)	(53,506)	(88,598)	(15,506,705)
Payments for Loans Provided	(205)					(348,340)
Payments for Other Operating Expenses	(13,331)	(22,717)	(63,506)	(11,292)	(9,865)	(1,133,987)
Net Cash (Used) by Operating Activities	(75,698)	(72,038)	(72,361)	(38,123)	(101,070)	(5,864,696)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Gifts	2,877	4,569	1,246	4,481		905,636
Proceeds from Endowments		735		250		387,063
Proceeds from Transfers from Other Funds	88,807	62,013	81,869	33,373	96,960	7,117,490
Proceeds from Loan Programs	20,225	57				20,282
Proceeds from Grant Receipts	21	20,788	21,787	8,548	19,820	1,043,021
Proceeds from Other Noncapital Financing Activities	1,491	292		136	2	483,144
Payments of Interest	(2,764)					(3,242)
Payments for Transfers to Other Funds			(349)	(485)		(1,755,229)
Payments for Grant Disbursements	(18,781)					(18,781)
Payments for Other Noncapital Financing Uses					(1,412)	(396,663)
Net Cash Provided by Noncapital Financing Activities	91,876	88,454	104,553	46,303	115,370	7,782,721
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets		22	24,306			46,168
Proceeds from Debt Issuance	21,000			123	93,028	4,274,316
Proceeds from State Grants and Contracts		8,757				37,753
Proceeds from Federal Grants and Contracts						379
Proceeds from Gifts					1,084	2,084
Proceeds from Other Capital and Related Financing Activities		482		3,374		67,293
Proceeds from Capital Contributions		1,256		13		210,135
Proceeds from Interfund Payables						79,930
Payments for Additions to Capital Assets	(9,908)	(13,945)	(21,951)	(33,754)	(18,658)	(3,512,598)
Payments of Principal on Debt Issuance	(4,755)	(11,382)	(14,723)	(4,489)	(24,001)	(2,434,820)
Payments for Capital Leases	(262)	(43)			(1,322)	(4,656)
Payments of Interest on Debt Issuance	(2,941)	(5,060)	(5,080)	(2,888)	(4,805)	(673,993)
Payments of Other Costs on Debt Issuance	(235)				(876)	(64,360)
Payments for Interfund Receivables		(1,357)			(681)	(4,842)
Net Cash Provided (Used) by Capital and Related Financing Activities	2,899	(21,270)	(17,448)	(37,621)	43,769	(1,977,211)

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STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System	University of North Texas System
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$ 15,466,706	$ 3,043,741	$ 221,291	$ 633,063	$ 142,119	$ 30,648
Proceeds from Interest and Investment Income	1,067,335	117,892	79,053	25,800	11,599	4,740
Proceeds from Principal Payments on Loans						
Payments to Acquire Investments	(16,133,353)	(3,098,095)	(304,065)	(846,962)	(211,718)	(75,714)
Net Cash Provided (Used) by Investing Activities	400,688	63,538	(3,721)	(188,099)	(58,000)	(40,326)
Net Increase (Decrease) in Cash and Cash Equivalents	(43,851)	152,984	45,214	35,486	(88,847)	(43,687)
Cash and Cash Equivalents, September 1, 2015	2,920,561	1,116,878	341,315	326,273	640,225	247,341
Cash and Cash Equivalents, August 31, 2016	$ 2,876,710	$ 1,269,862	$ 386,529	$ 361,759	$ 551,378	$ 203,654
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating (Loss)	$ (4,351,790)	$ (1,862,116)	$ (604,892)	$ (512,636)	$ (444,663)	$ (328,267)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:						
Depreciation and Amortization	1,307,689	314,922	122,625	97,314	91,371	65,900
Bad Debt Expense	395,594	4,865	501		2,019	
Pension Expense	250,326	32,794	15,871	15,698	14,237	9,949
Operating Income (Loss) and Cash Flow Categories						
Classification Differences	(265,136)			2,720	(56,529)	(10,063)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(619,334)	13,012	(12,658)	30,669	(4,636)	(6,700)
(Increase) Decrease in Due From Other Funds		(3,853)	969		(2,699)	
(Increase) Decrease in Inventories	(8,340)	138	73	(87)	(1,557)	(514)
(Increase) Decrease in Notes Receivable			531		(1,170)	
(Increase) Decrease in Loans and Contracts	(14,706)	1,350			(436)	(375)
(Increase) Decrease in Other Assets	(56,090)	6,721	(24,348)	(2,215)	20,177	(9,123)
(Increase) Decrease in Prepaid Expenses		(17,886)	(4,778)	(24)	(597)	
Increase (Decrease) in Payables	45,493	47,372	15,488	(8,333)	18,209	(19,250)
Increase (Decrease) in Deposits	3,540	786			(14)	
Increase (Decrease) in Due To Other Funds		(316)	(553)		395	
Increase (Decrease) in Unearned Revenue	10,601	3,475	9,804	9,724	14,342	19,269
Increase (Decrease) in Employees' Compensable Leave	38,345	(291)	2,254	1,318	350	
Increase (Decrease) in Benefits Payable	664,750	91,999	2,813	18,609	738	
Increase (Decrease) in Other Liabilities	(84,305)	(6,037)	23,554	(1,574)	(1,999)	(15,779)
Total Adjustments	1,668,427	489,051	152,146	163,819	92,201	33,314
Net Cash (Used) by Operating Activities	$ (2,683,363)	$ (1,373,065)	$ (452,746)	$ (348,817)	$ (352,462)	$ (294,953)
NONCASH TRANSACTIONS						
Donation of Capital Assets	$ 12,743	$ 9,190	$ 5,854	$	$ 1,875	$ 1,266
Net Change in Fair Value of Investments	$ 1,149,821	$ 59,186	$ (27,250)	$ (4,533)	$ 3,822	$ 10,735
Borrowing Under Capital Lease Purchase	$ 14,439	$ 3,081	$	$ 1,881		$ 186
Other	$ (199,378)	$ 728,937	$ (1,328)	$	$ (701)	$ 16,805

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STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$ 33,837	$ 2,565	$ 645	$ 85,144	$ 5,989	$ 19,665,748
Proceeds from Interest and Investment Income	6,368	1,597	2,659	3,096	336	1,320,475
Proceeds from Principal Payments on Loans			2			2
Payments to Acquire Investments	(36,904)			(58,922)	(59,218)	(20,824,951)
Net Cash Provided (Used) by Investing Activities	3,301	4,162	3,306	29,318	(52,893)	161,274
Net Increase (Decrease) in Cash and Cash Equivalents	22,378	(692)	18,050	(123)	5,176	102,088
Cash and Cash Equivalents, September 1, 2015	15,970	86,345	24,715	8,241	37,832	5,765,696
Cash and Cash Equivalents, August 31, 2016	$ 38,348	$ 85,653	$ 42,765	$ 8,118	$ 43,008	$ 5,867,784
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating (Loss)	$ (89,304)	$ (90,529)	$ (92,200)	$ (48,956)	$ (118,891)	$ (8,544,244)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:						
Depreciation and Amortization	15,290	16,264	17,375	13,037	10,980	2,072,767
Bad Debt Expense	933		2,402	328		406,642
Pension Expense	1,857	6,752	1,614	957	682	350,737
Operating Income (Loss) and Cash Flow Categories						
Classification Differences	(1,851)	(2,404)	(11,142)	(4,113)	961	(347,557)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(3,404)	(119)	(2,450)	(2,276)	(749)	(608,645)
(Increase) Decrease in Due From Other Funds	(108)	244	5,259		(188)	(376)
(Increase) Decrease in Inventories	(98)	9	(28)	25	683	(9,696)
(Increase) Decrease in Notes Receivable						(639)
(Increase) Decrease in Loans and Contracts	(205)	101		10		(14,261)
(Increase) Decrease in Other Assets		1	(139)			(65,016)
(Increase) Decrease in Prepaid Expenses	(396)	(2,406)	(2,525)	(99)		(28,711)
Increase (Decrease) in Payables	(261)	(3,488)	(102)	1,113	2,466	98,707
Increase (Decrease) in Deposits		155			(530)	3,937
Increase (Decrease) in Due To Other Funds	(51)	118				(407)
Increase (Decrease) in Unearned Revenue	856	2,368	4,773	1,859	3,409	80,480
Increase (Decrease) in Employees' Compensable Le	223	85	779	(8)	(12)	43,043
Increase (Decrease) in Benefits Payable	478	771	3,973			784,131
Increase (Decrease) in Other Liabilities	343	40	50		119	(85,588)
Total Adjustments	13,606	18,491	19,839	10,833	17,821	2,679,548
Net Cash (Used) by Operating Activities	$ (75,698)	$ (72,038)	$ (72,361)	$ (38,123)	$ (101,070)	$ (5,864,696)
NONCASH TRANSACTIONS						
Donation of Capital Assets	$	$ 548	$	$ 10	$ 4,117	$ 35,603
Net Change in Fair Value of Investments	$ 7,525	$ 885	$ 3,682	$ 701	$	$ 1,204,574
Borrowing Under Capital Lease Purchase		$ 348	$	$	$	$ 19,935
Other	$	$ 4,348	$	$ 4,053	$ 3,172	$ 555,908

Section Two (continued)
Fiduciary Funds
(And Similar Component Units)

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **State Employees Retirement System (S.E.R.S.) Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who completed 20 or more years of service or became occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Texas Emergency Services Retirement System Fund** accounts for the accumulation of resources for pension, death and disability benefits for eligible fire and emergency services personnel who serve without monetary reward.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **Texa$aver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

August 31, 2016 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Texas Emergency Services Retirement System Fund	Retired School Employees Group Insurance Trust
ASSETS						
Cash and Cash Equivalents	$ 458,335	$ 38,369	$ 1,782	$ 867	$ 255	$ 496,199
Securities Lending Collateral	18,128,073	166,674	5,878	2,596		
Investments:						
U.S. Government	19,799,452	3,890,273	137,277	60,670	13,997	
Corporate Equity	21,293,275	6,056,116	213,704	94,448	42,214	
Corporate Obligations	30,923				9,803	
Foreign Securities	27,145,656	6,794,025	239,742	105,956	24,910	
Externally Managed Investments	52,120,429	6,016,599	212,309	93,832		
Other	12,372,733	1,235,534	43,574	19,211	1,977	
Receivables:						
Federal						95,945
Interest and Dividends	218,746	62,712	2,214	978	161	404
Accounts	273,910	109,060	1,483	1,496	1,085	57,479
Investment Trades	943,213	435,216	15,358	6,787	245	
Other	10,618					108,523
Due From Other Funds	60,729	16,665	3			18,766
Prepaid Items	70					
Properties, at Cost, Net of Accumulated Depreciation or Amortization	69,485	7,591				
Total Assets	152,925,647	24,828,834	873,324	386,841	94,647	777,316
LIABILITIES						
Payables:						
Accounts	$ 25,366	$ 22,701	$ 578	$ 289	$ 143	$ 135,246
Investment Trades	476,566	169,279	5,974	2,640	514	
Payroll	5,055					258
Annuities	138,542					
Due To Other Funds	7,707	1,257	851	197		
Unearned Revenue		565	1		26	
Employees' Compensable Leave	8,280	3,074				326
Obligations/Securities Lending	18,116,023	166,378	5,871	2,595		
Other Liabilities	139,471					
Total Liabilities	18,917,010	363,254	13,275	5,721	683	135,830
NET POSITION						
Restricted for Pensions	134,008,637	24,465,580	860,049	381,120	93,964	
Held in Trust for OPEB* and Other Purposes						641,486
Total Net Position	$ 134,008,637	$ 24,465,580	$ 860,049	$ 381,120	$ 93,964	$ 641,486

Concluded on the following page

* Other Post Employment Benefits (OPEB)

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds (concluded)

August 31, 2016 (Amounts in Thousands)

	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	Texa$aver Administrative Trust Fund	Totals
ASSETS					
Cash and Cash Equivalents	$ 19,586	$ 3,693	$ 4,841	$ 6,107	$ 1,030,034
Securities Lending Collateral					18,303,221
Investments:					
U.S. Government					23,901,669
Corporate Equity					27,699,757
Corporate Obligations					40,726
Foreign Securities					34,310,289
Externally Managed Investments					58,443,169
Other	543,171		8,287		14,224,487
Receivables:					
Federal	93,363				189,308
Interest and Dividends	166	1	7	1	285,390
Accounts	24,749	54	6,216	6	475,538
Investment Trades					1,400,819
Other					119,141
Due From Other Funds	230		22		96,415
Prepaid Items					70
Properties, at Cost, Net of Accumulated Depreciation or Amortization					77,076
Total Assets	681,265	3,748	19,373	6,114	180,597,109
LIABILITIES					
Payables:					
Accounts	$ 173,550	$ 1,607	$ 12,615	$ 4,204	$ 376,299
Investment Trades					654,973
Payroll					5,313
Annuities					138,542
Due To Other Funds	506,795	82	355	155	517,399
Unearned Revenue	414	3	13		1,022
Employees' Compensable Leave					11,680
Obligations/Securities Lending					18,290,867
Other Liabilities					139,471
Total Liabilities	680,759	1,692	12,983	4,359	20,135,566
NET POSITION					
Restricted for Pensions					159,809,350
Held in Trust for OPEB* and Other Purposes	506	2,056	6,390	1,755	652,193
Total Net Position	$ 506	$ 2,056	$ 6,390	$ 1,755	$ 160,461,543

* Other Post Employment Benefits (OPEB)

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Texas Emergency Services Retirement System Fund	Retired School Employees Group Insurance Trust
ADDITIONS						
Contributions:						
Member Contributions	$ 2,962,488	$ 674,678	$ 9,539	$ 5,755	$ 3,464	$ 208,582
State Contributions	1,783,828	642,795	27,497	12,374		297,071
Premium Contributions		44,046				374,736
Federal Contributions						124,740
Other Contributions	1,397,246					431,932
Total Contributions	6,143,562	1,361,519	37,036	18,129	3,464	1,437,061
Investment Income:						
From Investing Activities:						
Net Increase in Fair Value of Investments	3,802,977	719,037	25,276	11,254	3,970	
Interest, Dividend and Other	5,535,267	584,391	20,578	9,006	1,587	5,421
Total Investing Income	9,338,244	1,303,428	45,854	20,260	5,557	5,421
Less Investing Activities Expense	237,510	34,474	1,178	466	604	
Net Income from Investing Activities	9,100,734	1,268,954	44,676	19,794	4,953	5,421
From Securities Lending Activities:						
Securities Lending Income	165,668	652	23	10		
Less Securities Lending Expense:						
Borrower Rebates*	62,836	(2,602)	(92)	(40)		
Management Fees	10,285	325	12	5		
Net Income from Securities Lending	92,547	2,929	103	45	0	0
Total Net Investment Income	9,193,281	1,271,883	44,779	19,839	4,953	5,421
Other Additions:						
Settlement of Claims		1,490	52	23	2	
Other Revenue	1,993	181	4		1	89
Transfer In	20,469	89,141			1,584	
Total Other Additions	22,462	90,812	56	23	1,587	89
Total Additions	15,359,305	2,724,214	81,871	37,991	10,004	1,442,571
DEDUCTIONS						
Benefits	9,382,410	2,131,676	62,720	20,856	4,702	1,766,427
Refunds of Contributions	373,419	84,445	1,826	299		
Transfer Out	89,142	20,546				
Administrative Expenses	39,826	17,897	1,368	218	135	4,680
Depreciation and Amortization Expense	2,856	1,474				
Loss on Impairment of Capital Assets	1					
Interest Expense						
Other Expenses	1,720	1,077	53	8	32	2,897
Total Deductions	9,889,374	2,257,115	65,967	21,381	4,869	1,774,004
INCREASE (DECREASE) IN NET POSITION	5,469,931	467,099	15,904	16,610	5,135	(331,433)
NET POSITION						
Net Position, September 1, 2015	128,538,706	23,998,481	844,145	364,510	88,829	972,919
Net Position, August 31, 2016	$ 134,008,637	$ 24,465,580	$ 860,049	$ 381,120	$ 93,964	$ 641,486

Concluded on the following page

* The pension funds of the Employees Retirement System of Texas received rebates from borrowers in excess of payments made to borrowers due to increased demand in the securities lending market.

Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	Texa$aver Administrative Trust Fund	Totals
ADDITIONS					
Contributions:					
Member Contributions	$ 4,588	$	$ 79,640	$	$ 3,948,734
State Contributions	663,987				3,427,552
Premium Contributions	178,769				597,551
Federal Contributions	69,186				193,926
Other Contributions			1,313		1,830,491
Total Contributions	916,530	0	80,953	0	9,998,254
Investment Income:					
From Investing Activities:					
Net Increase in Fair Value of Investments					4,562,514
Interest, Dividend and Other	1,138	22	38	29	6,157,477
Total Investing Income	1,138	22	38	29	10,719,991
Less Investing Activities Expense		5	4	11	274,252
Net Income from Investing Activities	1,138	17	34	18	10,445,739
From Securities Lending Activities:					
Securities Lending Income					166,353
Less Securities Lending Expense:					
Borrower Rebates*					60,102
Management Fees					10,627
Net Income from Securities Lending	0	0	0	0	95,624
Total Net Investment Income	1,138	17	34	18	10,541,363
Other Additions:					
Settlement of Claims	5,569			1	7,137
Other Revenue	392	587	194	49	3,490
Transfer In	1,750				112,944
Total Other Additions	7,711	587	194	50	123,571
Total Additions	925,379	604	81,181	68	20,663,188
DEDUCTIONS					
Benefits	912,929		81,179		14,362,899
Refunds of Contributions					459,989
Transfer Out					109,688
Administrative Expenses	6,003	223	535	395	71,280
Depreciation and Amortization Expense					4,330
Loss on Impairment of Capital Assets					1
Interest Expense	14				14
Other Expenses	5,927	9	1,281	38	13,042
Total Deductions	924,873	232	82,995	433	15,021,243
INCREASE (DECREASE) IN NET POSITION	506	372	(1,814)	(365)	5,641,945
NET POSITION					
Net Position, September 1, 2015		1,684	8,204	2,120	154,819,598
Net Position, August 31, 2016	$ 506	$ 2,056	$ 6,390	$ 1,755	$ 160,461,543

* The pension funds of the Employees Retirement System of Texas received rebates from borrowers in excess of payments made to borrowers due to increased demand in the securities lending market.

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the money received in the settlement of the State of Texas v. The American Tobacco Co., et. al., designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Treasury Operations Division of the Texas Comptroller of Public Accounts.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Additionally, the fund holds certain insurance company statutory deposits. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** holds funds for offender commissary accounts along with the Texas Department of Criminal Justice employee commissary contributions.

The **Texas College Savings Plans** receive money contributed by account holders, money acquired from private sources and income from investment of deposits. The plans may be used only to pay costs of program administration and operations, make payments to state, private or independent institutions of higher education and make refunds to account holders.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Private-Purpose Trust Funds

August 31, 2016 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private-Purpose Trust Funds	Totals
ASSETS							
Cash and Cash Equivalents	$	$ 229,387	$ 585,174	$ 10,661	$ 516	$ 65,123	$ 890,861
Restricted Cash and Cash Equivalents						14	14
Investments:							
U.S. Government		69,464		21,162		1,851	92,477
Corporate Equity	54,322	4,449				10,498	69,269
Corporate Obligations						2,961	2,961
Foreign Securities	47,304					7,166	54,470
Other	2,196,347				564,678	11,308	2,772,333
Receivables:							
Interest and Dividends	45	2	5			30	82
Accounts						100	100
Other					69	4,300	4,369
Loans and Contracts					644		644
Properties, at Cost, Net of Accumulated Depreciation or Amortization						688	688
Other Assets		106,280					106,280
Total Assets	2,298,018	409,582	585,179	31,823	565,907	104,039	3,994,548
LIABILITIES							
Payables:							
Accounts	$ 1,164	$	$	$ 4,363	$ 407	$ 14,573	$ 20,507
Interest						6	6
Unearned Revenue					539	17	556
Payable from Restricted Assets					752		752
Funds Held for Others		106,280				67	106,347
Other Liabilities		293,163				256	293,419
Total Liabilities	1,164	399,443	0	4,363	1,698	14,919	421,587
NET POSITION							
Held in Trust for Individuals, Organizations and Other Governments	2,296,854	10,139	585,179	27,460	564,209	89,120	3,572,961
Total Net Position	$ 2,296,854	$ 10,139	$ 585,179	$ 27,460	$ 564,209	$ 89,120	$ 3,572,961

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private-Purpose Trust Funds	Totals
ADDITIONS							
Contributions:							
Federal Contributions	$	$	$	$	$	$ 4,166	$ 4,166
Other Contributions					201,202		201,202
Total Contributions	0	0	0	0	201,202	4,166	205,368
Investment Income:							
From Investing Activities:							
Net Increase in Fair Value of Investments	41,463				18,640	1,284	61,387
Interest and Investment Income	17,542	100,355	1,026		17,278	725	136,926
Total Investing Income	59,005	100,355	1,026	0	35,918	2,009	198,313
Less Investing Activities Expense					3,673		3,673
Net Income from Investing Activities	59,005	100,355	1,026	0	32,245	2,009	194,640
Total Net Investment Income	59,005	100,355	1,026	0	32,245	2,009	194,640
Other Additions:							
Settlement of Claims						4,714	4,714
Other Revenue			99,536	146,846	384	2,610	249,376
Transfer In						7,854	7,854
Total Other Additions	0	0	99,536	146,846	384	15,178	261,944
Total Additions	59,005	100,355	100,562	146,846	233,831	21,353	661,952
DEDUCTIONS							
Benefits					179,716	420	180,136
Transfer Out		7,854				23	7,877
Intergovernmental Payments	46,761					5,575	52,336
Administrative Expenses	5,205				299	259	5,763
Depreciation and Amortization Expense						39	39
Settlement of Claims						5,168	5,168
Interest Expense						8	8
Other Expenses		94,809	101	144,948	89	1,309	241,256
Total Deductions	51,966	102,663	101	144,948	180,104	12,801	492,583
INCREASE (DECREASE) IN NET POSITION	7,039	(2,308)	100,461	1,898	53,727	8,552	169,369
NET POSITION							
Net Position, September 1, 2015	2,289,815	222,372	484,718	25,562	510,482	80,565	3,613,514
Restatements	0	(209,925)	0	0	0	3	(209,922)
Net Position, September 1, 2015, as Restated	2,289,815	12,447	484,718	25,562	510,482	80,568	3,403,592
Net Position, August 31, 2016	$ 2,296,854	$ 10,139	$ 585,179	$ 27,460	$ 564,209	$ 89,120	$ 3,572,961

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Texas Comptroller of Public Accounts for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Agency Funds

August 31, 2016 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self-Insurance Fund	City, County, MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	$ 5	$ 628	$ 7,300	$ 995,021	$ 373,442	$ 1,376,396
Investments:						
U.S. Government	371,930				20,048	391,978
Corporate Equity					401,937	401,937
Corporate Obligations					223	223
Repurchase Agreements					32,935	32,935
Other					157,373	157,373
Receivables:						
Interest and Dividends	1,055					1,055
Accounts					9,922	9,922
Taxes					10	10
Due From Other Funds					8	8
Other Assets		791,508	481,973		115,641	1,389,122
Total Assets	$ 372,990	$ 792,136	$ 489,273	$ 995,021	$ 1,111,539	$ 3,760,959
LIABILITIES						
Payables:						
Accounts	$	$	$	$	$ 1,109	$ 1,109
Other Intergovernmental				995,021		995,021
Due To Other Funds					638	638
Funds Held for Others	372,990	792,136	489,273		1,109,780	2,764,179
Other Liabilities					12	12
Total Liabilities	$ 372,990	$ 792,136	$ 489,273	$ 995,021	$ 1,111,539	$ 3,760,959

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Balance September 1, 2015	Additions	Deductions	Balance August 31, 2016
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	$ 2	$ 3	$	$ 5
Investments	566,779		194,849	371,930
Interest and Dividends Receivable	511	544		1,055
Total Assets	$ 567,292	$ 547	$ 194,849	$ 372,990
LIABILITIES				
Funds Held for Others	$ 567,292	$	$ 194,302	$ 372,990
Total Liabilities	$ 567,292	$ 0	$ 194,302	$ 372,990
Life, Health, Accident and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 695	$ 695	$ 762	$ 628
Other Assets	888,750	29,854	127,096	791,508
Total Assets	$ 889,445	$ 30,549	$ 127,858	$ 792,136
LIABILITIES				
Accounts Payable	$	$ 67	$ 67	$
Funds Held for Others	889,445	30,549	127,858	792,136
Total Liabilities	$ 889,445	$ 30,616	$ 127,925	$ 792,136
Texas Workers' Compensation Self-Insurance Fund				
ASSETS				
Cash and Cash Equivalents	$ 7,301	$ 7,402	$ 7,403	$ 7,300
Other Assets	483,363	1	1,391	481,973
Total Assets	$ 490,664	$ 7,403	$ 8,794	$ 489,273
LIABILITIES				
Accounts Payable	$	$ 51	$ 51	$
Funds Held for Others	490,664	102	1,493	489,273
Total Liabilities	$ 490,664	$ 153	$ 1,544	$ 489,273
City, County, MTA and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 941,922	$ 9,662,586	$ 9,609,487	$ 995,021
Total Assets	$ 941,922	$ 9,662,586	$ 9,609,487	$ 995,021
LIABILITIES				
Payables:				
Accounts	$	$ 8,345,286	$ 8,345,286	$
Other Intergovernmental	941,922	995,021	941,922	995,021
Funds Held for Others		10,604,508	10,604,508	
Total Liabilities	$ 941,922	$ 19,944,815	$ 19,891,716	$ 995,021

Concluded on the following page

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Balance September 1, 2015	Additions	Deductions	Balance August 31, 2016
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 362,877	$ 10,626,690	$ 10,616,125	$ 373,442
Investments	600,967	584,744	573,195	612,516
Receivables:				
Accounts	14,821	3,709	8,608	9,922
Taxes	12		2	10
Due From Other Funds	569	1,428	1,989	8
Interfund Receivable		2,588	2,588	
Other Assets	106,676	77,336	68,371	115,641
Total Assets	$ 1,085,922	$ 11,296,495	$ 11,270,878	$ 1,111,539
LIABILITIES				
Payables:				
Accounts	$ 941	$ 798,944	$ 798,776	$ 1,109
Due To Other Funds	1,017	593,699	594,078	638
Interfund Payables		2,589	2,589	
Funds Held for Others	1,083,952	11,176,819	11,150,991	1,109,780
Other Liabilities	12			12
Total Liabilities	$ 1,085,922	$ 12,572,051	$ 12,546,434	$ 1,111,539
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 1,312,797	$ 20,297,376	$ 20,233,777	$ 1,376,396
Investments	1,167,746	584,744	768,044	984,446
Receivables:				
Interest and Dividends	511	544		1,055
Accounts	14,821	3,709	8,608	9,922
Taxes	12		2	10
Due From Other Funds	569	1,428	1,989	8
Interfund Receivable		2,588	2,588	
Other Assets	1,478,789	107,191	196,858	1,389,122
Total Assets	$ 3,975,245	$ 20,997,580	$ 21,211,866	$ 3,760,959
LIABILITIES				
Payables:				
Accounts	$ 941	$ 9,144,348	$ 9,144,180	$ 1,109
Other Intergovernmental	941,922	995,021	941,922	995,021
Due To Other Funds	1,017	593,699	594,078	638
Interfund Payables		2,589	2,589	
Funds Held for Others	3,031,353	21,811,978	22,079,152	2,764,179
Other Liabilities	12			12
Total Liabilities	$ 3,975,245	$ 32,547,635	$ 32,761,921	$ 3,760,959

Section Two (concluded)

Discretely Presented Component Units

Discretely Presented Component Units

A statement of net position and a statement of activities were prepared to report the breakdown of the following discretely presented component units:

Teacher Retirement System of Texas
State Bar of Texas
Texas State Affordable Housing Corporation
OneStar National Service Commission Inc. and OneStar Foundation, Inc.
Texas Low-Level Radioactive Waste Disposal Compact Commission
Texas Prepaid Tuition Scholarship Foundation
Texas Match the Promise Foundation
Texas Windstorm Insurance Association
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Pool
Fair Access to Insurance Requirements Plan Association
Texas Boll Weevil Eradication Foundation Inc.
Texas Agricultural Finance Authority
Texas Water Resources Finance Authority
Texas Appraiser Licensing and Certification Board
Texas Economic Development Corporation
Texas Small Business Industrial Development Corporation
Texas Disaster Relief Fund
Texas Health Services Authority
Beacon State Fund
State Agency Council
Film Texas Fund
Texas Governor's Mansion Administration
Robert G. Carr and Nona K. Carr Scholarship Foundation
University of North Texas Foundation
The Alamo Endowment

STATE OF TEXAS

Combining Statement of Net Position – Component Units

August 31, 2016 (Amounts in Thousands)*

	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission Inc. and OneStar Foundation, Inc.	Texas Low-Level Radioactive Waste Disposal Compact Commission	Texas Prepaid Tuition Scholarship Foundation	Texas Match the Promise Foundation
ASSETS							
Current Assets:							
Cash and Cash Equivalents	$ 337,060	$ 16,364	$ 1,322	$ 513	$ 305	$ 17	$ 31
Short-Term Investments		28,144	4,653				
Restricted:							
Cash and Cash Equivalents			3,213				
Loans and Contracts			2,598				
Receivables:							
Federal				44			
Other Intergovernmental							
Accounts	12,918	3,738	528				
Interest and Dividends	289		187				
Other				13			
Inventories		685					
Prepaid Items		898	87				
Loans and Contracts							
Other Current Assets		345		14	2	75	553
Total Current Assets	350,267	50,174	12,588	584	307	92	584
Noncurrent Assets:							
Restricted:							
Cash and Cash Equivalents							
Investments			81,908				
Loans and Contracts			6,564				
Investments			4,547				
Loans and Contracts							
Gifts Receivable							
Other Receivables							
Assets Held in Trust							
Prepaid Items							
Other Noncurrent Assets			320				
Capital Assets:							
Non-Depreciable or Non-Amortizable		610	232				
Depreciable or Amortizable, Net		7,786	12,076	13			
Total Noncurrent Assets	0	8,396	105,647	13	0	0	0
Total Assets	350,267	58,570	118,235	597	307	92	584

Continued on the following page

* Amounts reported as of Aug. 31, 2016, unless otherwise indicated in Note 19.

Combining Statement of Net Position – Component Units (continued)

August 31, 2016 (Amounts in Thousands)*

	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission Inc. and OneStar Foundation, Inc.	Texas Low-Level Radioactive Waste Disposal Compact Commission	Texas Prepaid Tuition Scholarship Foundation	Texas Match the Promise Foundation
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	$ 296,223	$ 3,915	$ 530	$ 70	$ 27	$	$
Payroll	126						
Interest			889				
Unearned Revenue		13,590	328	562			
Capital Lease Obligations		44					
Employees' Compensable Leave	77	586					
Notes and Loans Payable			48				
Revenue Bonds Payable			4,713				
Funds Held for Others		242					
Other Current Liabilities			397			75	262
Total Current Liabilities	296,426	18,377	6,905	632	27	75	262
Noncurrent Liabilities:							
Capital Lease Obligations		131					
Employees' Compensable Leave	23	994					
Notes and Loans Payable			3,088				
Revenue Bonds Payable			76,945				
Other Noncurrent Liabilities			3,258				
Total Noncurrent Liabilities	23	1,125	83,291	0	0	0	0
Total Liabilities	296,449	19,502	90,196	632	27	75	262
NET POSITION							
Net Investment in Capital Assets		8,396	1,376				
Restricted for:							
Funds Held as Permanent Investments:							
Nonexpendable							
Expendable							
Other	53,818		4,235				
Unrestricted		30,672	22,428	(35)	280	17	322
Total Net Position	$ 53,818	$ 39,068	$ 28,039	$ (35)	$ 280	$ 17	$ 322

Continued on the following page

* Amounts reported as of Aug. 31, 2016, unless otherwise indicated in Note 19.

Combining Statement of Net Position – Component Units (continued)

August 31, 2016 (Amounts in Thousands)*

	Texas Windstorm Insurance Association	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Pool **	Fair Access to Insurance Requirements Plan Association	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority
ASSETS							
Current Assets:							
Cash and Cash Equivalents	$ 1,006,708	$ 715	$ 377	$	$ 88,105	$ 94,486	$ 20,411
Short-Term Investments		4,933					
Restricted:							
Cash and Cash Equivalents							
Loans and Contracts							
Receivables:							
Federal							
Other Intergovernmental						1,288	
Accounts		306			14,626	5,278	
Interest and Dividends					31		33
Other		34					
Inventories						2,780	
Prepaid Items	2,518	57			14	1,073	5
Loans and Contracts							187
Other Current Assets	1,609				336		
Total Current Assets	1,010,835	6,045	377	0	103,112	104,905	20,636
Noncurrent Assets:							
Restricted:							
Cash and Cash Equivalents						4,675	
Investments						8,550	
Loans and Contracts							
Investments							
Loans and Contracts							2,120
Gifts Receivable							
Other Receivables						778	
Assets Held in Trust							
Prepaid Items						2,844	
Other Noncurrent Assets		43					
Capital Assets:							
Non-Depreciable or Non-Amortizable							
Depreciable or Amortizable, Net	8,632	863				2,393	
Total Noncurrent Assets	8,632	906	0	0	0	19,240	2,120
Total Assets	1,019,467	6,951	377	0	103,112	124,145	22,756

Continued on the following page

* Amounts reported as of Aug. 31, 2016, unless otherwise indicated in Note 19.

** See Note 19 for additional detail.

Combining Statement of Net Position – Component Units (continued)

August 31, 2016 (Amounts in Thousands)*

	Texas Windstorm Insurance Association	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Pool **	Fair Access to Insurance Requirements Plan Association	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	$ 179,695	$ 27	$ 13	$	$ 19,950	$ 131	$ 45
Payroll		14				445	19
Interest							
Unearned Revenue	247,172				43,240		
Capital Lease Obligations							
Employees' Compensable Leave		45				761	6
Notes and Loans Payable						1,417	5,244
Revenue Bonds Payable							
Funds Held for Others							
Other Current Liabilities	105,773	66			33,780		
Total Current Liabilities	532,640	152	13	0	96,970	2,754	5,314
Noncurrent Liabilities:							
Capital Lease Obligations							
Employees' Compensable Leave							12
Notes and Loans Payable						6,291	
Revenue Bonds Payable							
Other Noncurrent Liabilities	458,400					235	
Total Noncurrent Liabilities	458,400	0	0	0	0	6,526	12
Total Liabilities	991,040	152	13	0	96,970	9,280	5,326
NET POSITION							
Net Investment in Capital Assets	8,632	864				2,393	
Restricted for:							
Funds Held as Permanent Investments:							
Nonexpendable							
Expendable							
Other						13,002	
Unrestricted	19,795	5,935	364		6,142	99,470	17,430
Total Net Position	$ 28,427	$ 6,799	$ 364	$ 0	$ 6,142	$ 114,865	$ 17,430

Continued on the following page

* Amounts reported as of Aug. 31, 2016, unless otherwise indicated in Note 19.

** See Note 19 for additional detail.

Combining Statement of Net Position – Component Units (continued)

August 31, 2016 (Amounts in Thousands)*

	Texas Water Resources Finance Authority	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation **	Texas Disaster Relief Fund	Texas Health Services Authority	Beacon State Fund
ASSETS							
Current Assets:							
Cash and Cash Equivalents	$	$ 1,301	$ 1,801	$	$ 858	$ 5,225	$ 75
Short-Term Investments	18,094						
Restricted:							
Cash and Cash Equivalents							
Loans and Contracts							
Receivables:							
Federal							
Other Intergovernmental							
Accounts			15				
Interest and Dividends	229						
Other						8	
Inventories		4					
Prepaid Items			25				
Loans and Contracts	340						
Other Current Assets						21	
Total Current Assets	18,663	1,305	1,841	0	858	5,254	75
Noncurrent Assets:							
Restricted:							
Cash and Cash Equivalents							
Investments							
Loans and Contracts							
Investments	48	350					
Loans and Contracts	3,769						
Gifts Receivable							
Other Receivables							
Assets Held in Trust							
Prepaid Items							
Other Noncurrent Assets							
Capital Assets:							
Non-Depreciable or Non-Amortizable							
Depreciable or Amortizable, Net		49	2			8	
Total Noncurrent Assets	3,817	399	2	0	0	8	0
Total Assets	22,480	1,704	1,843	0	858	5,262	75

Continued on the following page

* Amounts reported as of Aug. 31, 2016, unless otherwise indicated in Note 19.

** See Note 19 for additional detail.

Combining Statement of Net Position – Component Units (continued)

August 31, 2016 (Amounts in Thousands)*

	Texas Water Resources Finance Authority	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation **	Texas Disaster Relief Fund	Texas Health Services Authority	Beacon State Fund
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	$	$ 13	$ 202	$	$	$ 119	$
Payroll		91	180				
Interest							
Unearned Revenue						206	
Capital Lease Obligations							
Employees' Compensable Leave		68					
Notes and Loans Payable							
Revenue Bonds Payable							
Funds Held for Others							
Other Current Liabilities							
Total Current Liabilities	0	172	382	0	0	325	0
Noncurrent Liabilities:							
Capital Lease Obligations							
Employees' Compensable Leave		51					
Notes and Loans Payable							
Revenue Bonds Payable							
Other Noncurrent Liabilities							
Total Noncurrent Liabilities	0	51	0	0	0	0	0
Total Liabilities	0	223	382	0	0	325	0
NET POSITION							
Net Investment in Capital Assets							
Restricted for:							
Funds Held as Permanent Investments:							
Nonexpendable							
Expendable							
Other		1,495					
Unrestricted	22,480	(14)	1,461		858	4,937	75
Total Net Position	$ 22,480	$ 1,481	$ 1,461	$ 0	$ 858	$ 4,937	$ 75

Continued on the following page

* Amounts reported as of Aug. 31, 2016, unless otherwise indicated in Note 19.

** See Note 19 for additional detail.

Combining Statement of Net Position – Component Units (continued)

August 31, 2016 (Amounts in Thousands)*

	State Agency Council	Film Texas Fund	Texas Governor's Mansion Administration	Robert G. Carr and Nona K. Carr Scholarship Foundation	University of North Texas Foundation	The Alamo Endowment	Totals
ASSETS							
Current Assets:							
Cash and Cash Equivalents	$ 24	$ 1	$ 1	$	$ 11,098	$ 992	$ 1,587,790
Short-Term Investments					1,398		57,222
Restricted:							
Cash and Cash Equivalents				247			3,460
Loans and Contracts							2,598
Receivables:							
Federal							44
Other Intergovernmental							1,288
Accounts			4	190	3	131	37,737
Interest and Dividends							769
Other					504		559
Inventories					8	2	3,479
Prepaid Items							4,677
Loans and Contracts							527
Other Current Assets							2,955
Total Current Assets	24	1	5	437	13,011	1,125	1,703,105
Noncurrent Assets:							
Restricted:							
Cash and Cash Equivalents							4,675
Investments				124,734	279,052		494,244
Loans and Contracts							6,564
Investments				160			5,105
Loans and Contracts							5,889
Gifts Receivable					4,389		4,389
Other Receivables							778
Assets Held in Trust					6,967		6,967
Prepaid Items							2,844
Other Noncurrent Assets							363
Capital Assets:							
Non-Depreciable or Non-Amortizable							842
Depreciable or Amortizable, Net							31,822
Total Noncurrent Assets	0	0	0	124,894	290,408	0	564,482
Total Assets	24	1	5	125,331	303,419	1,125	2,267,587

Concluded on the following page

* Amounts reported as of Aug. 31, 2016, unless otherwise indicated in Note 19.

Combining Statement of Net Position – Component Units (concluded)

August 31, 2016 (Amounts in Thousands)*

	State Agency Council	Film Texas Fund	Texas Governor's Mansion Administration	Robert G. Carr and Nona K. Carr Scholarship Foundation	University of North Texas Foundation	The Alamo Endowment	Totals
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	$	$	$	$ 13	$ 2,044	$ 58	$ 503,075
Payroll				20			895
Interest							889
Unearned Revenue							305,098
Capital Lease Obligations							44
Employees' Compensable Leave							1,543
Notes and Loans Payable							6,709
Revenue Bonds Payable							4,713
Funds Held for Others					180,723		180,965
Other Current Liabilities					2,175		142,528
Total Current Liabilities	0	0	0	33	184,942	58	1,146,459
Noncurrent Liabilities:							
Capital Lease Obligations							131
Employees' Compensable Leave				15			1,095
Notes and Loans Payable							9,379
Revenue Bonds Payable							76,945
Other Noncurrent Liabilities							461,893
Total Noncurrent Liabilities	0	0	0	15	0	0	549,443
Total Liabilities	0	0	0	48	184,942	58	1,695,902
NET POSITION							
Net Investment in Capital Assets							21,661
Restricted for:							
Funds Held as Permanent Investments:							
Nonexpendable				120,254	92,001		212,255
Expendable				(1,332)	25,982		24,650
Other				6,361		1,067	79,978
Unrestricted	24	1	5		494		233,141
Total Net Position	$ 24	$ 1	$ 5	$ 125,283	$ 118,477	$ 1,067	$ 571,685

* Amounts reported as of Aug. 31, 2016, unless otherwise indicated in Note 19.

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)*

	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission Inc. and OneStar Foundation, Inc.	Texas Low-Level Radioactive Waste Disposal Compact Commission	Texas Prepaid Tuition Scholarship Foundation
EXPENSES						
Salaries and Wages	$ 1,211	$ 18,419	$ 2,288	$ 983	$	$
Payroll Related Costs	228	6,034		235		
Professional Fees and Services	1,191	3,859	292	781	253	
Travel	13	8,336	105	127	28	
Materials and Supplies	3	778		70	1	
Communications and Utilities	1	1,409		28	2	
Repairs and Maintenance		1,003				
Rentals and Leases	42	1,197	95	131	4	
Printing and Reproduction		1,779		23	2	
Claims and Judgments		797				
Bad Debt Expense						
Cost of Goods Sold		603				
Depreciation and Amortization		916	506	6		
Other Financing Fees		50				
Public Assistance Payments				13,069		
Employee/Participant Benefit Payments	2,094,804					
Direct Interest Expense		2				
Interest Expense – Other			3,795			
Other	13,819	5,266	1,880	120	321	
Total Expenses	2,111,312	50,448	8,961	15,573	611	0
PROGRAM REVENUES						
Charges for Services	2,073,735	44,583	3,588	170		
Operating Grants and Contributions	200	160	4,175	15,242		
Total Program Revenues	2,073,935	44,743	7,763	15,412	0	0
Net Program Revenues (Expenses)	(37,377)	(5,705)	(1,198)	(161)	(611)	0
GENERAL REVENUES						
General Revenues						
Unrestricted Investment Earnings	3,081					
Other General Revenues		7,603	985		583	
Gain on Sale of Capital Assets						
Total General Revenues	3,081	7,603	985	0	583	0
Change in Net Position	(34,296)	1,898	(213)	(161)	(28)	0
Net Position, September 1, 2015	88,114	37,170	28,252	126	308	17
Restatements	0	0	0	0	0	0
Net Position, September 1, 2015, as Restated	88,114	37,170	28,252	126	308	17
Net Position, August 31, 2016	$ 53,818	$ 39,068	$ 28,039	$ (35)	$ 280	$ 17

Continued on the following page

* Amounts reported for the fiscal year ended Aug. 31, 2016, unless otherwise indicated in Note 19.

Combining Statement of Activities – Component Units (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)*

	Texas Match the Promise Foundation	Texas Windstorm Insurance Association	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Pool **	Fair Access to Insurance Requirements Plan Association
EXPENSES						
Salaries and Wages	$	$ 19,446	$ 1,298	$	$	$ 4,203
Payroll Related Costs		2,402	372			3,101
Professional Fees and Services			451	18		
Travel			13	2		
Materials and Supplies			35			
Communications and Utilities			44			
Repairs and Maintenance			56			
Rentals and Leases		1,335	316			445
Printing and Reproduction			3			
Claims and Judgments						
Bad Debt Expense						
Cost of Goods Sold						
Depreciation and Amortization		1,784	661			
Other Financing Fees		92,877				
Public Assistance Payments						
Employee/Participant Benefit Payments						
Direct Interest Expense		38,688				
Interest Expense – Other						
Other	99	207,532	134	15		85,519
Total Expenses	99	364,064	3,383	35	0	93,268
PROGRAM REVENUES						
Charges for Services		377,594	3,019			90,952
Operating Grants and Contributions	89	1,102	30	1		462
Total Program Revenues	89	378,696	3,049	1	0	91,414
Net Program Revenues (Expenses)	(10)	14,632	(334)	(34)	0	(1,854)
GENERAL REVENUES						
General Revenues						
Unrestricted Investment Earnings						
Other General Revenues					256	
Gain on Sale of Capital Assets						
Total General Revenues	0	0	0	0	256	0
Change in Net Position	(10)	14,632	(334)	(34)	256	(1,854)
Net Position, September 1, 2015	332	13,795	7,133	398	(375)	7,996
Restatements	0	0	0	0	119	0
Net Position, September 1, 2015, as Restated	332	13,795	7,133	398	(256)	7,996
Net Position, August 31, 2016	$ 322	$ 28,427	$ 6,799	$ 364	$ 0	$ 6,142

Continued on the following page

* Amounts reported for the fiscal year ended Aug. 31, 2016, unless otherwise indicated in Note 19.

** See Note 19 for additional detail.

Combining Statement of Activities – Component Units (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)*

	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation **
EXPENSES						
Salaries and Wages	$ 8,276	$ 203	$ 4	$ 830	$ 941	$
Payroll Related Costs		71		305		
Professional Fees and Services	829	30		51	68	
Travel	126	11		26	434	
Materials and Supplies	2,990	2		11	63	
Communications and Utilities	306			14	9	
Repairs and Maintenance	305			12		
Rentals and Leases	457			36	3	
Printing and Reproduction						
Claims and Judgments	8					
Bad Debt Expense	(351)				26	
Cost of Goods Sold						
Depreciation and Amortization	912			12	1	
Other Financing Fees						
Public Assistance Payments		319	4,280			
Employee/Participant Benefit Payments						
Direct Interest Expense						
Interest Expense – Other						
Other	2,756	221	12	94	487	845
Total Expenses	16,614	857	4,296	1,391	2,032	845
PROGRAM REVENUES						
Charges for Services	10,538	664		1,946	39	
Operating Grants and Contributions	10,470	3,710	293		2,416	
Total Program Revenues	21,008	4,374	293	1,946	2,455	0
Net Program Revenues (Expenses)	4,394	3,517	(4,003)	555	423	(845)
GENERAL REVENUES						
General Revenues						
Unrestricted Investment Earnings	188	212		3		
Other General Revenues	57	1		5		
Gain on Sale of Capital Assets	151					
Total General Revenues	396	213	0	8	0	0
Change in Net Position	4,790	3,730	(4,003)	563	423	(845)
Net Position, September 1, 2015	110,075	13,700	26,483	918	1,038	845
Restatements	0	0	0	0	0	0
Net Position, September 1, 2015, as Restated	110,075	13,700	26,483	918	1,038	845
Net Position, August 31, 2016	$ 114,865	$ 17,430	$ 22,480	$ 1,481	$ 1,461	$ 0

Continued on the following page

* Amounts reported for the fiscal year ended Aug. 31, 2016, unless otherwise indicated in Note 19.

** See Note 19 for additional detail.

Combining Statement of Activities – Component Units (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)*

	Texas Disaster Relief Fund	Texas Health Services Authority	Beacon State Fund	State Agency Council	Film Texas Fund
EXPENSES					
Salaries and Wages	$	$ 625	$	$	$
Payroll Related Costs		99			
Professional Fees and Services	1	813	2		
Travel		13			
Materials and Supplies		39	8		1
Communications and Utilities	1	185			
Repairs and Maintenance					
Rentals and Leases		39	6	2	
Printing and Reproduction					
Claims and Judgments					
Bad Debt Expense					
Cost of Goods Sold					
Depreciation and Amortization		6			
Other Financing Fees					
Public Assistance Payments			1		
Employee/Participant Benefit Payments					
Direct Interest Expense					
Interest Expense – Other					
Other	1	65	5		
Total Expenses	3	1,884	22	2	1
PROGRAM REVENUES					
Charges for Services		1,774			
Operating Grants and Contributions	7	41	56		
Total Program Revenues	7	1,815	56	0	0
Net Program Revenues (Expenses)	4	(69)	34	(2)	(1)
GENERAL REVENUES					
General Revenues					
Unrestricted Investment Earnings					
Other General Revenues					
Gain on Sale of Capital Assets					
Total General Revenues	0	0	0	0	0
Change in Net Position	4	(69)	34	(2)	(1)
Net Position, September 1, 2015	854	5,006	41	26	2
Restatements	0	0	0	0	0
Net Position, September 1, 2015, as Restated	854	5,006	41	26	2
Net Position, August 31, 2016	$ 858	$ 4,937	$ 75	$ 24	$ 1

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* Amounts reported for the fiscal year ended Aug. 31, 2016, unless otherwise indicated in Note 19.

Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)*

	Texas Governor's Mansion Administration	Robert G. Carr and Nona K. Carr Scholarship Foundation	University of North Texas Foundation	The Alamo Endowment	Totals
EXPENSES					
Salaries and Wages	$ 2	$ 237	$ 1,171	$	$ 60,137
Payroll Related Costs		76			12,923
Professional Fees and Services		41	2,061	232	10,973
Travel		11	17		9,262
Materials and Supplies	23	49		6	4,079
Communications and Utilities		1			2,000
Repairs and Maintenance					1,376
Rentals and Leases	1	3			4,112
Printing and Reproduction		1			1,808
Claims and Judgments					805
Bad Debt Expense					(325)
Cost of Goods Sold					603
Depreciation and Amortization					4,804
Other Financing Fees		5,912			98,839
Public Assistance Payments			2,358		20,027
Employee/Participant Benefit Payments					2,094,804
Direct Interest Expense					38,690
Interest Expense – Other					3,795
Other	5	27	2,967	7	322,197
Total Expenses	31	6,358	8,574	245	2,690,909
PROGRAM REVENUES					
Charges for Services	16		424		2,609,042
Operating Grants and Contributions	4	1,255	7,079	72	46,864
Total Program Revenues	20	1,255	7,503	72	2,655,906
Net Program Revenues (Expenses)	(11)	(5,103)	(1,071)	(173)	(35,003)
GENERAL REVENUES					
General Revenues					
Unrestricted Investment Earnings					3,484
Other General Revenues					9,490
Gain on Sale of Capital Assets					151
Total General Revenues	0	0	0	0	13,125
Change in Net Position	(11)	(5,103)	(1,071)	(173)	(21,878)
Net Position, September 1, 2015	16	130,386	124,259		596,915
Restatements	0	0	(4,711)	1,240	(3,352)
Net Position, September 1, 2015, as Restated	16	130,386	119,548	1,240	593,563
Net Position, August 31, 2016	$ 5	$ 125,283	$ 118,477	$ 1,067	$ 571,685

* Amounts reported for the fiscal year ended Aug. 31, 2016, unless otherwise indicated in Note 19.

Section Three
Statistical Section

State of Texas
Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and other supplementary information says about the state's overall financial health.

Contents **Pages**

Financial Trends Information . . . . . 279 – 285
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.

Revenue Capacity Information . . . . . 286 – 288
These schedules contain information intended to help the reader assess the state's most significant revenue source – state tax collections.

Debt Capacity Information . . . . . 289 – 293
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.

Demographic and Economic Information . . . . . 294 – 296
These schedules provide demographic and economic indicators intended to help the reader understand the socio-economic environment within which the state's financial activities take place.

Operating Information . . . . . 297 – 301
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.

Sources: Unless otherwise noted, the information in these schedules is derived from the Texas Comprehensive Annual Financial Report databases for the relevant years.

STATE OF TEXAS

Statistical Section – Financial Trends Information

Net Position by Component

Last Ten Fiscal Years

(Amounts in Millions)

	2007	2008	2009	2010	2011
GOVERNMENTAL ACTIVITIES					
Net Investment in Capital Assets	$ 56,438	$ 58,208	$ 59,720	$ 60,744	$ 61,917
Restricted	29,347	31,358	32,663	26,136	32,014
Unrestricted	12,565	11,105	3,479	8,025	3,322
Total Governmental Activities Net Position	98,350	100,671	95,862	94,905	97,253
BUSINESS-TYPE ACTIVITIES					
Net Investment in Capital Assets	7,343	7,385	7,655	7,933	9,243
Restricted	25,815	24,882	18,744	22,209	24,375
Unrestricted	9,741	9,885	8,619	7,230	8,516
Total Business-Type Activities Net Position	42,899	42,152	35,018	37,372	42,134
PRIMARY GOVERNMENT					
Net Investment in Capital Assets	63,781	65,593	67,375	68,677	71,160
Restricted	55,162	56,240	51,407	48,345	56,389
Unrestricted	22,306	20,990	12,098	15,255	11,838
Total Primary Government Net Position	$ 141,249	$ 142,823	$ 130,880	$ 132,277	$ 139,387

	2012	2013	2014	2015	2016
GOVERNMENTAL ACTIVITIES					
Net Investment in Capital Assets	$ 63,458	$ 64,095	$ 68,739	$ 70,898	$ 72,248
Restricted	33,817	34,407	41,660	42,675	46,941
Unrestricted	4,497	11,239	9,006	(19,286)	(20,445)
Total Governmental Activities Net Position	101,772	109,741	119,405	94,287	98,744
BUSINESS-TYPE ACTIVITIES					
Net Investment in Capital Assets	9,713	10,330	11,055	11,572	11,847
Restricted	27,539	31,093	40,021	33,218	42,741
Unrestricted	9,553	7,466	5,101	8,631	6,059
Total Business-Type Activities Net Position	46,805	48,889	56,177	53,421	60,647
PRIMARY GOVERNMENT					
Net Investment in Capital Assets	73,171	74,425	79,794	82,470	84,095
Restricted	61,356	65,500	81,681	75,893	89,682
Unrestricted	14,050	18,705	14,107	(10,655)	(14,386)
Total Primary Government Net Position	$ 148,577	$ 158,630	$ 175,582	$ 147,708	$ 159,391

Source: 2007 – 2016 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Financial Trends Information

Changes in Net Position

Last Ten Fiscal Years

(Amounts in Thousands)

	2007	2008	2009	2010	2011
GOVERNMENTAL ACTIVITIES:					
Expenses					
General Government	$ 2,555,309	$ 2,659,822	$ 3,052,177	$ 3,451,868	$ 4,037,805
Education	21,313,526	24,986,076	24,952,375	27,344,876	28,643,283
Employee Benefits	61,171	86,195	220,272	252,457	324,477
Teacher Retirement State Contributions	2,017,000	1,761,759	1,667,325	2,200,408	2,262,638
Health and Human Services	30,886,484	32,426,046	38,124,180	41,487,191	44,875,285
Public Safety and Corrections	5,035,761	5,020,897	6,026,868	6,231,847	5,539,155
Transportation	4,252,129	4,478,109	4,025,226	4,146,987	4,377,794
Natural Resources and Recreation	1,217,201	1,451,450	1,673,915	1,559,708	1,474,675
Regulatory Services	314,266	398,885	445,938	447,557	408,115
Interest on General Long-Term Debt	229,354	578,059	525,648	755,314	797,030
Total Expenses	67,882,201	73,847,298	80,713,924	87,878,213	92,740,257
Program Revenues					
Charges for Services:					
General Government	1,141,278	1,171,997	1,010,388	984,639	1,019,521
Education	584,971	821,291	474,249	463,719	632,584
Employee Benefits	116	107	109	135	100
Teacher Retirement State Contributions	26,661		33,624		
Health and Human Services	2,059,789	1,832,315	1,825,395	1,782,704	2,101,440
Public Safety and Corrections	823,602	331,101	354,117	336,134	330,198
Transportation	1,530,669	1,785,835	1,920,123	1,891,247	1,999,695
Natural Resources and Recreation	714,687	661,657	574,032	605,751	587,423
Regulatory Services	604,199	635,089	646,959	687,746	666,158
Operating Grants and Contributions	29,995,409	25,900,072	32,410,929	43,148,227	47,220,463
Capital Grants and Contributions	1,823,686	2,585,507	2,619,631	2,453,183	2,538,949
Total Program Revenues	39,305,067	35,724,971	41,869,556	52,353,485	57,096,531
Total Governmental Activities					
Net Program Expense	(28,577,134)	(38,122,327)	(38,844,368)	(35,524,728)	(35,643,726)
General Revenues					
Taxes:					
Sales and Use	20,230,164	21,640,855	21,026,034	19,558,426	21,751,249
Motor Vehicle and Manufactured Housing	3,338,498	3,384,597	2,568,599	2,624,725	3,001,387
Motor Fuels	3,149,043	3,000,148	3,155,941	3,060,246	3,108,153
Franchise	3,273,050	4,712,183	3,303,170	3,809,109	3,998,073
Oil and Natural Gas Production	2,692,032	4,036,033	1,335,296	2,157,334	3,069,384
Insurance Occupation	1,368,340	1,446,828	1,295,330	1,309,620	1,379,621
Cigarette and Tobacco	1,325,712	1,454,187	1,564,061	1,394,122	1,551,420
Other	1,694,750	1,744,400	1,680,362	1,676,452	1,802,300
Unrestricted Investment Earnings	941,938	1,041,840	178,470	575,642	334,621
Settlement of Claims	538,836	555,476	555,626	925,676	584,305
Gain on Sale of Capital Assets	3,942				99
Gain on Other Financial Activity					
Other General Revenues	1,627,330	1,392,565	1,769,051	2,017,783	1,533,427
Capital Contributions	309	8,653	1,554	30,845	108,119
Transfers – Internal Activity	(3,383,910)	(3,909,529)	(4,268,014)	(4,491,627)	(4,179,888)
Total General Revenues,					
Contributions and Transfers	36,800,034	40,508,236	34,165,480	34,648,353	38,042,270
Change in Net Position – Governmental Activities	8,222,900	2,385,909	(4,678,888)	(876,375)	2,398,544

Continued on the following page

Source: 2007 – 2016 state of Texas financial statements

Changes in Net Position (continued)

Last Ten Fiscal Years

(Amounts in Thousands)

	2007	2008	2009	2010	2011
BUSINESS-TYPE ACTIVITIES:					
Expenses					
General Government	$ 186,628	$ 177,012	$ 180,543	$ 162,620	$ 150,406
Education	17,165,602	18,619,716	20,135,452	20,943,292	22,226,690
Teacher Retirement State Contributions	909,845				
Health and Human Services	1,204,609	1,467,185	4,908,112	7,826,452	6,055,958
Public Safety and Corrections	75,305	80,607	83,498	87,120	86,262
Transportation	125,910	164,280	220,881	206,822	209,880
Natural Resources and Recreation	283,653	247,018	304,577	353,641	423,140
Lottery	2,691,210	2,634,446	2,680,273	2,681,627	2,783,798
Total Expenses	22,642,762	23,390,264	28,513,336	32,261,574	31,936,134
Program Revenues					
Charges for Services:					
General Government	42,713	43,106	42,147	47,377	49,717
Education	8,268,639	8,705,756	9,253,972	9,907,344	10,931,371
Teacher Retirement State Contributions	939,879				
Health and Human Services	1,665,242	1,058,134	1,027,897	2,107,474	2,675,581
Public Safety and Corrections	82,779	87,365	90,469	93,734	95,736
Transportation	16,757	48,958	66,375	73,312	74,877
Natural Resources and Recreation	41,034	42,964	46,682	44,973	43,374
Lottery	3,774,948	3,672,423	3,720,995	3,739,165	3,811,862
Operating Grants and Contributions	9,001,427	4,808,580	3,613,083	13,292,594	14,103,243
Capital Grants and Contributions	197,731	245,962	95,889	305,669	281,741
Total Program Revenues	24,031,149	18,713,248	17,957,509	29,611,642	32,067,502
Total Business-Type Activities Net Program Revenue (Expense)	1,388,387	(4,677,016)	(10,555,827)	(2,649,932)	131,368
General Revenues					
Unrestricted Investment Earnings	245,977	190,974	129,445	134,195	86,295
Settlement of Claims	283	6	14,691	1,384	1,215
Gain on Sale of Capital Assets	13,363	269	609		1
Other General Revenue	266,722	270,787	156,903	241,013	222,640
Capital Contributions	1,364				3,045
Contributions to Permanent and Term Endowments	184,193	167,692	120,404	136,577	126,971
Special Items	(318,813)	(150,026)			
Transfers – Internal Activity	3,383,910	3,909,529	4,268,014	4,491,627	4,179,888
Total General Revenues, Contributions, Special Items and Transfers	3,776,999	4,389,231	4,690,066	5,004,796	4,620,055
Change in Net Position – Business-Type Activities	5,165,386	(287,785)	(5,865,761)	2,354,864	4,751,423
Change in Net Position – Primary Government	$ 13,388,286	$ 2,098,124	$ (10,544,649)	$ 1,478,489	$ 7,149,967

Continued on the following page

Source: 2007 – 2016 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Financial Trends Information

Changes in Net Position (continued)

Last Ten Fiscal Years

(Amounts in Thousands)

	2012	2013	2014	2015	2016
GOVERNMENTAL ACTIVITIES:					
Expenses					
General Government	$ 3,116,737	$ 2,873,598	$ 2,967,443	$ 3,672,395	$ 2,583,707
Education	25,724,127	25,321,607	27,138,847	28,057,482	28,775,870
Employee Benefits	423,492	437,939	399,454	7,064	40,546
Teacher Retirement State Contributions	2,390,178	2,492,310	2,700,533	2,735,913	2,080,935
Health and Human Services	44,737,457	44,888,201	48,015,340	51,792,158	55,584,169
Public Safety and Corrections	5,294,730	5,316,819	5,542,840	5,779,455	6,214,653
Transportation	4,484,662	5,384,628	5,223,720	5,088,956	5,837,122
Natural Resources and Recreation	1,634,659	1,850,253	1,944,520	2,167,711	2,013,773
Regulatory Services	410,724	461,418	792,267	488,780	737,203
Interest on General Long-Term Debt	715,148	741,397	750,946	814,564	159,953
Total Expenses	88,931,914	89,768,170	95,475,910	100,604,478	104,027,931
Program Revenues					
Charges for Services:					
General Government	1,036,382	1,110,854	1,142,351	1,235,102	1,214,866
Education	480,475	506,995	801,358	710,897	640,800
Employee Benefits	134	116	70	71	71
Teacher Retirement State Contributions					
Health and Human Services	1,910,599	2,332,588	2,894,301	3,793,377	4,885,841
Public Safety and Corrections	342,782	348,876	338,239	323,419	328,660
Transportation	2,224,635	2,363,393	2,492,591	2,472,458	2,678,980
Natural Resources and Recreation	699,872	680,996	716,696	680,476	671,388
Regulatory Services	710,209	707,406	657,008	662,538	546,396
Operating Grants and Contributions	42,796,231	42,868,081	46,903,926	43,731,463	49,361,737
Capital Grants and Contributions	47,578	31,248	96,802	71,237	47,373
Total Program Revenues	50,248,897	50,950,553	56,043,342	53,681,038	60,376,112
Total Governmental Activities					
Net Program Expense	(38,683,017)	(38,817,617)	(39,432,568)	(46,923,440)	(43,651,819)
General Revenues					
Taxes:					
Sales and Use	24,349,600	26,199,771	27,372,895	29,072,568	27,964,415
Motor Vehicle and Manufactured Housing	3,580,663	3,891,539	4,213,273	4,541,039	4,525,239
Motor Fuels	3,195,332	3,214,393	3,327,707	3,495,904	3,468,212
Franchise	4,574,184	4,826,435	5,884,749	4,808,823	2,031,051
Oil and Natural Gas Production	3,727,498	4,501,478	4,645,756	3,987,325	3,638,527
Insurance Occupation	1,528,111	1,781,711	1,967,613	2,056,729	2,241,153
Cigarette and Tobacco	1,428,413	1,603,086	1,348,923	1,522,941	1,390,796
Other	1,954,752	2,100,125	2,155,450	2,287,678	2,275,042
Unrestricted Investment Earnings	645,813	142,724	300,423	153,315	282,494
Settlement of Claims	620,898	640,565	574,082	590,685	670,386
Gain on Sale of Capital Assets	7,163	376	1,865	50,749	54,797
Gain on Other Financial Activity			6,708	22,266	(59,904)
Other General Revenues	1,880,352	2,045,961	1,755,856	2,171,101	2,259,154
Capital Contributions	930	475	(152,616)	713	56,450
Transfers – Internal Activity	(3,944,781)	(4,028,026)	(4,130,757)	(4,189,320)	(4,777,546)
Total General Revenues, Contributions and Transfers	43,548,928	46,920,613	49,271,927	50,572,516	46,020,266
Change in Net Position – Governmental Activities	4,865,911	8,102,996	9,839,359	3,649,076	2,368,447

Continued on the following page

Source: 2007 – 2016 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Financial Trends Information

Changes in Net Position (concluded)

Last Ten Fiscal Years

(Amounts in Thousands)

	2012	2013	2014	2015	2016
BUSINESS-TYPE ACTIVITIES:					
Expenses					
General Government	$ 149,663	$ 149,735	$ 122,356	$ 113,069	$ 121,463
Education	22,667,443	23,828,365	24,896,493	26,443,474	28,555,418
Teacher Retirement State Contributions					1,584
Health and Human Services	5,117,829	3,854,869	2,759,024	2,585,461	3,145,846
Public Safety and Corrections	91,313	91,331	95,749	98,032	99,414
Transportation	215,845	228,769	248,827	251,897	352,735
Natural Resources and Recreation	346,150	319,094	315,963	279,335	392,417
Lottery	3,027,943	3,185,869	3,164,120	3,296,218	3,665,907
Total Expenses	31,616,186	31,658,032	31,602,532	33,067,486	36,334,784
Program Revenues					
Charges for Services:					
General Government	50,996	57,286	59,977	64,388	59,849
Education	11,671,987	12,395,115	13,212,424	14,431,570	15,118,887
Teacher Retirement State Contributions					
Health and Human Services	2,894,246	2,749,160	2,532,273	2,496,371	2,369,689
Public Safety and Corrections	102,593	101,082	107,544	112,255	111,739
Transportation	85,819	119,152	155,019	193,794	256,137
Natural Resources and Recreation	40,084	45,546	48,705	47,562	41,758
Lottery	4,191,587	4,376,786	4,385,331	4,530,468	5,068,213
Operating Grants and Contributions	12,543,063	9,320,966	13,120,148	7,327,924	9,883,197
Capital Grants and Contributions	259,750	350,922	522,211	131,714	68,313
Total Program Revenues	31,840,125	29,516,015	34,143,632	29,336,046	32,977,782
Total Business-Type Activities Net Program Revenue (Expense)	223,939	(2,142,017)	2,541,100	(3,731,440)	(3,357,002)
General Revenues					
Unrestricted Investment Earnings	133,680	11,566	165,597	67,089	142,738
Settlement of Claims	378	3,187	2,403	306	848
Gain on Sale of Capital Assets	543		11,469	40,440	1,044
Other General Revenue	248,725	164,538	195,964	186,006	175,050
Capital Contributions				3,817	5,854
Contributions to Permanent and Term Endowments	136,800	184,108	238,951	182,754	217,683
Special Items					
Transfers – Internal Activity	3,944,781	4,028,026	4,130,757	4,189,320	4,777,546
Total General Revenues, Contributions, Special Items and Transfers	4,464,907	4,391,425	4,745,141	4,669,732	5,320,763
Change in Net Position – Business-Type Activities	4,688,846	2,249,408	7,286,241	938,292	1,963,761
Change in Net Position – Primary Government	$ 9,554,757	$ 10,352,404	$ 17,125,600	$ 4,587,368	$ 4,332,208

Source: 2007 – 2016 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Financial Trends Information

Fund Balances – Governmental Funds

Last Ten Fiscal Years

(Amounts in Millions)

	2007	2008	2009	2010
GENERAL FUND				
Reserved	$ 2,138	$ 2,471	$ 3,380	$ 5,460
Unreserved	8,698	8,184	5,586	2,950
Total General Fund	$ 10,836	$ 10,655	$ 8,966	$ 8,410
ALL OTHER GOVERNMENTAL FUNDS				
Reserved	$ 29,054	$ 27,957	$ 25,586	$ 28,193
Unreserved				
Special Revenue	1,847	4,953	5,323	3,343
Capital Projects	(11)	(124)	(111)	(204)
Permanent	632	564	477	1,028
Total All Other Governmental Funds	$ 31,522	$ 33,350	$ 31,275	$ 32,360

	2011*	2012	2013	2014	2015	2016
GENERAL FUND						
Nonspendable	$ 501	$ 678	$ 599	$ 596	$ 843	$ 728
Restricted	1,393	1,764	1,160	1,091	900	1,547
Committed	4,185	5,283	5,159	5,138	4,765	4,602
Assigned	29	44	95	70	23	115
Unassigned	1,077	1,095	8,028	10,864	11,351	7,680
Total General Fund	$ 7,185	$ 8,864	$ 15,041	$ 17,759	$ 17,882	$ 14,672
ALL OTHER GOVERNMENTAL FUNDS						
Nonspendable	$ 12,254	$ 12,915	$ 13,203	$ 13,837	$ 14,483	$ 16,692
Restricted	22,606	21,897	23,051	28,344	30,314	31,584
Committed	758	1,013	883	2,552	1,961	1,276
Assigned	2	2	2	726	40	574
Unassigned	(738)	(511)	(688)	(555)		
Total All Other Governmental Funds	$ 34,882	$ 35,316	$ 36,451	$ 44,904	$ 46,798	$ 50,126

* Due to the changes in the state's fund structure initiated when GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* was implemented, information for fund balances is only available for the line items presented beginning in fiscal 2011.

Source: 2007 – 2016 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Financial Trends Information

Changes in Fund Balances – Governmental Funds

Last Ten Fiscal Years*

(Amounts in Millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
REVENUES										
Taxes	$ 36,670	$ 41,256	$ 37,654	$ 35,868	$ 39,632	$ 44,171	$ 47,857	$ 51,413	$ 51,096	$ 47,971
Federal	26,967	28,656	35,699	42,483	44,907	38,219	38,016	39,776	41,869	44,284
Licenses, Fees and Permits	4,324	4,522	4,433	4,533	4,661	5,076	5,178	5,251	5,308	5,266
Interest and Other Investment Income	4,574	(368)	(1,957)	2,171	3,609	3,204	3,011	4,999	(574)	2,405
Land Income	422	650	390	384	551	432	473	752	638	555
Settlement of Claims	539	555	555	614	593	611	625	577	590	685
Sales of Goods and Services	2,697	2,063	1,962	1,816	2,125	1,860	2,355	2,911	3,748	4,840
Other	2,730	2,590	3,192	3,499	3,087	3,888	4,068	4,182	4,676	5,253
Total Revenues	78,923	79,924	81,928	91,368	99,165	97,461	101,583	109,861	107,351	111,259
EXPENDITURES										
General Government	2,415	2,628	3,025	3,352	3,981	3,065	2,804	2,875	2,873	2,869
Education	21,317	24,976	24,941	27,331	28,639	25,715	25,313	27,148	27,937	28,671
Employee Benefits	14	14	13	15	14	14	19	18	14	47
Teacher Retirement State Contributions		1,781	1,729	1,830	1,854	1,641	1,675	1,957	2,736	2,081
Health and Human Services	30,855	32,355	37,988	41,367	44,869	44,709	44,841	47,947	51,741	55,544
Public Safety and Corrections	4,897	4,864	5,802	6,006	5,415	5,114	5,171	4,891	5,595	6,038
Transportation	3,702	3,895	3,399	3,474	3,647	3,788	4,677	1,068	3,581	3,643
Natural Resources and Recreation	1,172	1,420	1,606	1,566	1,518	1,619	1,840	4,897	2,186	2,124
Regulatory Services	317	393	434	438	407	412	461	791	486	736
Capital Outlay	4,368	4,404	3,738	3,539	3,737	3,528	3,511	5,529	5,447	6,371
Debt Service:										
Principal	437	415	596	731	592	580	706	836	757	746
Interest	370	428	513	720	757	725	737	769	757	792
Other Financing Fees	14	15	15	41	16	8	7	16	18	12
Total Expenditures	69,878	77,588	83,799	90,410	95,446	90,918	91,762	98,742	104,128	109,674
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,045	2,336	(1,871)	958	3,719	6,543	9,821	11,119	3,223	1,585
OTHER FINANCING SOURCES (USES)										
Transfer In	7,765	13,832	9,737	11,465	6,138	7,278	7,059	9,192	9,709	7,587
Transfer Out	(12,887)	(17,777)	(14,033)	(15,987)	(10,344)	(11,249)	(10,883)	(13,321)	(13,941)	(12,365)
Bonds and Notes Issued	3,471	2,988	1,940	3,808	1,566	338	1,142	953	2,578	1,089
Bonds Issued for Refunding	249	515	271	385	547	38	99	2,432	1,943	1,693
Premiums on Bonds Issued **	126	180	33	48	85	14	200	408	642	359
Payment to Escrow for Refunding	(263)	(559)	(309)	(214)	(580)	(62)	(113)	(2,671)	(2,284)	(1,825)
Sale of Capital Assets	29	22	16	14	9	31	17	41	79	73
Increases in Obligations Under Capital Leases		1		10	3	3		15		1
Service Concession Arrangement										25
Gain on Other Financial Activity								7	22	(59)
Insurance Recoveries	2	15	18	15	12	2	5	9	22	3
Capital Contributions										55
Total Other Financing Sources (Uses)	(1,508)	(783)	(2,327)	(456)	(2,564)	(3,607)	(2,474)	(2,935)	(1,230)	(3,364)
NET CHANGE IN FUND BALANCES	$ 7,537	$ 1,553	$ (4,198)	$ 502	$ 1,155	$ 2,936	$ 7,347	$ 8,184	$ 1,993	$ (1,779)
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	1.2%	1.2%	1.4%	1.7%	1.5%	1.5%	1.6%	1.7%	1.5%	1.5%

* This table comprises the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums on bonds issued were combined with bonds and notes issued in years prior to 2007.

Source: 2007 – 2016 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Revenue Capacity Information

Taxable Sales by Industry

For the Calendar Years 2006 through 2015*

(Amounts in Millions)

NAICS** Industry	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Agriculture, Forestry, Fishing, Hunting	$ 152	$ 143	$ 151	$ 133	$ 137	$ 147	$ 178	$ 182	$ 209	$ 223
Mining, Quarrying, Oil & Gas Extraction	8,833	11,707	15,653	10,398	12,514	21,010	27,477	27,955	31,764	21,928
Utilities	9,068	9,237	10,883	9,623	9,525	9,945	9,363	9,600	10,590	11,069
Construction	11,603	13,258	14,292	10,948	10,834	12,725	15,065	16,738	18,294	19,663
Manufacturing	24,691	26,598	28,913	22,539	23,787	27,910	31,419	33,818	37,072	37,558
Wholesale Trade	25,315	25,853	27,918	21,444	23,447	27,595	29,933	31,709	35,574	33,499
Retail Trade	127,165	134,740	136,845	130,829	133,441	140,924	152,791	161,965	170,972	175,185
Transportation, Warehousing	1,794	2,086	2,884	2,167	2,508	3,092	3,335	3,630	3,743	3,886
Information	28,489	32,242	33,075	32,753	33,036	34,618	36,448	38,451	41,422	43,087
Finance, Insurance	2,112	2,240	2,708	2,684	2,404	2,604	2,646	2,779	3,122	3,411
Real Estate, Rental, Leasing	8,257	8,950	9,526	7,526	7,814	9,204	10,488	11,488	12,679	12,206
Professional, Scientific, Technical Serv.	7,064	7,704	8,528	7,705	7,861	8,766	9,411	10,235	11,398	11,831
Management of Companies, Enterprises	838	595	511	336	322	393	440	514	720	955
Admin Supt Waste Mgmt Remediation Serv.	8,667	9,374	9,883	9,404	9,508	10,183	10,911	11,355	12,330	13,063
Educational Services	417	323	341	368	450	474	460	492	494	533
Health Care, Social Assistance	645	727	759	793	841	846	995	1,040	1,094	1,142
Arts, Entertainment, Recreation	3,033	3,342	3,591	3,544	3,640	3,940	4,137	4,510	4,846	5,189
Accommodation, Food Services	29,746	31,877	33,654	33,260	34,635	37,162	40,440	42,648	46,023	49,198
Other Services (Except Public Admin)	7,254	7,779	7,939	7,216	7,676	8,344	9,195	9,653	10,373	10,635
Public Administration	1,459	1,491	1,645	1,660	1,687	1,961	2,626	2,744	2,791	2,027
Nonclassifiable	4	4	4	4	4	6	5	5	5	5
Other	8	8	10	30	19	94	888	333	686	1,565
Total Taxable Sales	$ 306,614	$ 330,278	$ 349,713	$ 315,364	$ 326,090	$ 361,943	$ 398,651	$ 421,844	$ 456,201	$ 457,858
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

* Fiscal 2016 data is not available until mid-year of the following fiscal year. Prior years subject to revisions due to length of verification process and amended returns.

** North American Industry Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports"

State Tax Collections and Retail Sales

Last Ten Fiscal Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tax Collections*	$ 36,670	$ 41,256	$ 37,654	$ 35,868	$ 39,632	$ 44,171	$ 47,857	$ 51,413	$ 51,096	$ 47,971
Percentage Tax Collection Change From Prior Year	8.3%	12.5%	(8.7)%	(4.7)%	10.5%	11.5%	8.3%	7.4%	(0.6)%	(6.1)%
Resident Population	23.8	24.2	24.7	25.2	25.6	26.0	26.5	26.9	27.4	28.0
Percentage Population Change From Prior Year	1.9%	2.0%	2.0%	1.8%	1.6%	1.7%	1.6%	1.7%	1.9%	2.2%
State Tax Collections Per Capita	$ 1,543	$ 1,701	$ 1,522	$ 1,424	$ 1,548	$ 1,696	$ 1,809	$ 1,911	$ 1,865	$ 1,713

* This table comprises the following funds: general, special revenue, debt service and capital projects.

Source: Tax collection figures are from the 2007 – 2016 state of Texas financial statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and were revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales

Last Ten Years*

(Amounts in Millions)

Year	Retail Sales	Percent Change
2007	$ 394,884	3.8%
2008	435,256	10.2%
2009	389,524	(10.5)%
2010	399,398	2.5%
2011	432,915	8.4%
2012	460,846	6.5%
2013	487,031	5.7%
2014	522,842	7.4%
2015	523,058	0.0%
2016**	249,597	2.0%

* Reported amounts for retail sales may be revised each year as more complete information is received.

** Amount is for first half of 2016 and the percentage change is calculated over the first half of 2015.

Source: Texas Comptroller of Public Accounts

STATE OF TEXAS

Statistical Section – Revenue Capacity Information

Texas Gross State Product by Industry

Last Ten Years*

(Amounts in Millions, Except Percentage Data)

NAICS** Industry	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Agriculture, Forestry and Fishing	$ 8,214	$ 7,188	$ 6,127	$ 9,930	$ 9,840	$ 9,231	$ 11,051	$ 10,986	$ 9,587	$ 8,783
% Change	12.2	(12.5)	(14.8)	62.1	(0.9)	(6.2)	19.7	(0.6)	(12.7)	(8.4)
Mining and Natural Resources	137,000	184,219	118,917	133,189	163,001	181,307	213,444	235,375	150,631	110,125
% Change	18.0	34.5	(35.4)	12.0	22.4	11.2	17.7	10.3	(36.0)	(26.9)
Construction	64,568	65,461	61,154	57,666	59,414	67,089	71,997	79,672	86,868	89,125
% Change	14.1	1.4	(6.6)	(5.7)	3.0	12.9	7.3	10.7	9.0	2.6
Manufacturing	182,430	163,683	155,962	179,910	209,538	216,774	234,477	223,658	237,082	233,676
% Change	8.5	(10.3)	(4.7)	15.4	16.5	3.5	8.2	(4.6)	6.0	(1.4)
Trade, Transportation and Utilities	212,770	220,355	215,252	229,123	243,651	272,185	280,264	301,600	322,945	322,457
% Change	5.7	3.6	(2.3)	6.4	6.3	11.7	3.0	7.6	7.1	(0.2)
Information	48,306	50,327	46,438	44,812	44,469	43,968	47,995	50,604	53,069	55,465
% Change	10.0	4.2	(7.7)	(3.5)	(0.8)	(1.1)	9.2	5.4	4.9	4.5
Financial Activities	157,226	159,565	160,715	169,179	181,353	192,367	200,268	219,520	231,535	244,464
% Change	3.9	1.5	0.7	5.3	7.2	6.1	4.1	9.6	5.5	5.6
Professional and Business Services	117,845	128,309	122,520	128,461	136,591	144,903	154,840	168,766	180,753	191,221
% Change	10.3	8.9	(4.5)	4.8	6.3	6.1	6.9	9.0	7.1	5.8
Educational and Health Services	65,084	70,077	76,612	80,208	83,104	86,278	88,946	93,207	99,946	105,883
% Change	5.1	7.7	9.3	4.7	3.6	3.8	3.1	4.8	7.2	5.9
Leisure and Hospitality Services	36,928	37,435	37,618	38,453	39,749	42,756	44,755	51,902	57,641	60,684
% Change	5.5	1.4	0.5	2.2	3.4	7.6	4.7	16.0	11.1	5.3
Other Private Services	24,363	24,686	25,280	25,609	26,098	28,138	29,409	31,521	32,748	34,009
% Change	4.0	1.3	2.4	1.3	1.9	7.8	4.5	7.2	3.9	3.9
Government, including Schools	124,481	132,083	139,921	146,860	147,926	152,897	155,412	161,055	167,277	175,884
% Change	7.0	6.1	5.9	5.0	0.7	3.4	1.6	3.6	3.9	5.1
TOTAL	$ 1,179,214	$ 1,243,387	$ 1,166,515	$ 1,243,398	$ 1,344,732	$ 1,437,893	$ 1,532,856	$ 1,627,865	$ 1,630,082	$ 1,631,776
% Change	8.4	5.4	(6.2)	6.6	8.1	6.9	6.6	6.2	0.1	0.1
TOTAL (In 2009 Chained Dollars)	$ 1,166,681	$ 1,173,697	$ 1,166,516	$ 1,197,006	$ 1,240,117	$ 1,310,522	$ 1,373,914	$ 1,440,273	$ 1,509,819	$ 1,511,453
% Change	4.9	0.6	(0.6)	2.6	3.6	5.7	4.8	4.8	4.8	0.1

* The U.S. Bureau of Economic Analysis periodically revises its personal income and gross product data for states. These revisions include data changes for previous years as new and more complete information becomes available.

** North American Industry Classification System

Source: U.S. Bureau of Economic Analysis, IHS Markit, and Texas Comptroller of Public Accounts

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Legal Debt Margin Information

Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

	2007	2008	2009	2010	2011
Debt Service Limit*	$ 1,664,884	$ 1,773,089	$ 1,795,118	$ 1,759,856	$ 1,782,305
Total Net Debt Service Applicable to Limit	605,518	1,450,498	1,464,078	1,443,705	1,318,175
Legal Debt Service Margin	$ 1,059,366	$ 322,591	$ 331,040	$ 316,151	$ 464,130
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	36.4%	81.8%	81.6%	82.0%	74.0%

	2012	2013	2014	2015	2016
Debt Service Limit*	$ 1,908,572	$ 2,092,423	$ 2,254,734	$ 2,373,010	$ 2,465,908
Total Net Debt Service Applicable to Limit	1,329,298	1,271,754	1,222,025	1,256,462	1,171,046
Legal Debt Service Margin	$ 579,274	$ 820,669	$ 1,032,709	$ 1,116,548	$ 1,294,862
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	69.7%	60.8%	54.2%	52.9%	47.5%

Legal Debt Service Margin Calculation for Fiscal 2016

Unrestricted General Revenue fiscal 2014	$ 47,951,831
Unrestricted General Revenue fiscal 2015	49,383,668
Unrestricted General Revenue fiscal 2016	50,619,001
Debt Service Limit*	2,465,908
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from General Revenue (GR)	670,218
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	500,828
Total Net Debt Service Applicable to Limit	1,171,046
Legal Debt Service Margin	$ 1,294,862

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Ratio of Outstanding Debt by Type

Last Ten Fiscal Years

(Amounts in Millions, Except Percentage Data and Per Capita)

	Governmental Activities				Business-Type Activities						
Fiscal Year	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita*
2007	$6,757	$2,031	$ 216	$ 11	$ 2,775	$12,304	$2,029	$ 14	$ 26,137	3.0%	$1,094
2008	8,061	3,445	340	10	2,708	13,370	2,437	14	30,385	3.2%	1,247
2009	9,745	3,287	150	8	2,927	15,488	2,348	13	33,966	3.7%	1,366
2010	10,086	5,620	761	15	2,944	17,043	3,103	14	39,586	4.1%	1,565
2011	11,520	5,456	1,150	14	2,956	18,767	2,006	20	41,889	4.0%	1,629
2012	11,314	4,277	1,381	12	3,230	19,033	2,075	22	41,344	3.7%	1,582
2013	12,089	4,100	1,528	2	3,670	20,964	2,322	20	44,695	3.9%	1,682
2014	12,052	4,662	1,295	34	3,765	20,404	2,140	17	44,369	3.6%	1,641
2015	14,177	4,490	1,548	30	3,955	21,466	1,243	61	46,970	3.6%	1,706
2016	15,060	4,290	1,423	27	4,330	23,411	2,195	70	50,806	3.8%	1,815

* Prior years numbers are subject to revisions. Calculation based on resident population figures from U.S. Bureau of the Census and Texas Comptroller of Public Accounts.

Source: 2007 – 2016 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years*

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Bonded Debt (General Obligation Bonds Only)	$ 9,532	$ 10,768	$ 12,672	$ 13,029	$ 14,476	$ 14,544	$ 15,759	$ 15,817	$ 18,132	$ 19,390
Percentage Bonded Debt Change From Prior Year	32.1%	13.0%	17.7%	2.8%	11.1%	0.5%	8.4%	0.4%	14.6%	6.9%
Tax Collections	$ 36,670	$ 41,256	$ 37,654	$ 35,868	$ 39,632	$ 44,171	$ 47,857	$ 51,413	$ 51,096	$ 47,971
Percentage Bonded Debt to Tax Collections	26.0%	26.1%	33.7%	36.3%	36.5%	32.9%	32.9%	30.8%	35.5%	40.4%
Resident Population	23.8	24.2	24.7	25.2	25.6	26.0	26.5	26.9	27.4	28.0
General Bonded Debt Per Capita	$ 401	$ 445	$ 513	$ 517	$ 565	$ 559	$ 595	$ 588	$ 662	$ 693

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collection amounts are from the 2007 – 2016 state of Texas financial statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Pledged Revenue Bond Coverage

Last Ten Fiscal Years

(Amounts in Thousands, Except Ratio Data)

	2007	2008	2009	2010	2011
GOVERNMENTAL ACTIVITIES					
Pledged Revenue Bond Amount	$ 5,765,826	$ 6,748,490	$ 6,640,110	$ 5,522,453	$ 6,085,973
Operating Expenditures	6,881,279	7,447,496	7,233,759	6,085,684	6,729,036
Net Available Revenue	$ (1,115,453)	$ (699,006)	$ (593,649)	$ (563,231)	$ (643,063)
Debt Service –					
Principal	$ 104,077	$ 112,250	$ 156,490	$ 168,785	$ 161,750
Interest	66,822	118,203	152,025	147,501	263,708
Total Debt Service	$ 170,899	$ 230,453	$ 308,515	$ 316,286	$ 425,458
Coverage Ratio	(6.5)	(3.0)	(1.9)	(1.8)	(1.5)
BUSINESS-TYPE ACTIVITIES					
Pledged Revenue Bond Amount	$ 9,869,477	$10,225,735	$10,700,325	$11,514,734	$12,864,956
Operating Expenditures	1,457,567	11,698,563	8,481,872	9,202,811	9,986,234
Net Available Revenue	$ 8,411,910	$ (1,472,828)	$ 2,218,453	$ 2,311,923	$ 2,878,722
Debt Service –					
Principal	$ 683,150	$ 420,487	$ 455,540	$ 482,474	$ 638,223
Interest	560,359	558,666	620,323	703,116	792,065
Total Debt Service	$ 1,243,509	$ 979,153	$ 1,075,863	$ 1,185,590	$ 1,430,288
Coverage Ratio	6.8	(1.5)	2.1	2.0	2.0
COMPONENT UNITS*					
Pledged Revenue Bond Amount	$ 13,034	$ 10,971	$ 62,397	$ 63,667	$ 97,297
Operating Expenditures	91	552	1,051	1,332	1,038
Net Available Revenue	$ 12,943	$ 10,419	$ 61,346	$ 62,335	$ 96,259
Debt Service –					
Principal	$ 5,485	$ 5,090	$ 78,793	$ 42,762	$ 58,588
Interest	5,051	3,610	16,926	5,194	11,760
Total Debt Service	$ 10,536	$ 8,700	$ 95,719	$ 47,956	$ 70,348
Coverage Ratio	1.2	1.2	0.6	1.3	1.4
Total Combined Coverage Ratio	5.1	(1.8)	1.1	1.2	1.2

Concluded on the following page

* Component unit amounts for 2007 were adjusted to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources. Operating expenditures include capital outlay expenditures.

Source: 2007 – 2016 state of Texas financial statements and bond reporting system

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Pledged Revenue Bond Coverage (concluded)

Last Ten Fiscal Years

(Amounts in Thousands, Except Ratio Data)

	2012	2013	2014	2015	2016
GOVERNMENTAL ACTIVITIES					
Pledged Revenue Bond Amount	$ 6,619,706	$ 6,823,519	$ 7,497,602	$ 7,538,774	$ 8,300,451
Operating Expenditures	6,075,344	6,738	7,353,756	7,849,850	8,703,430
Net Available Revenue	$ 544,362	$ 6,816,781	$ 143,846	$ (311,076)	$ (402,979)
Debt Service –					
Principal	$ 170,650	$ 172,015	$ 174,925	$ 162,130	$ 164,585
Interest	210,694	203,294	196,102	202,315	179,164
Total Debt Service	$ 381,344	$ 375,309	$ 371,027	$ 364,445	$ 343,749
Coverage Ratio	1.4	18.2	0.4	(0.9)	(1.2)
BUSINESS-TYPE ACTIVITIES					
Pledged Revenue Bond Amount	$ 13,595,957	$ 14,723,022	$ 16,052,498	$ 17,008,284	$ 17,241,074
Operating Expenditures	10,516,772	11,780,640	12,203,713	13,180,793	15,240,489
Net Available Revenue	$ 3,079,185	$ 2,942,382	$ 3,848,785	$ 3,827,491	$ 2,000,585
Debt Service –					
Principal	$ 637,203	$ 705,187	$ 773,920	$ 837,544	$ 1,038,866
Interest	827,258	802,272	843,685	877,431	919,464
Total Debt Service	$ 1,464,461	$ 1,507,459	$ 1,617,605	$ 1,714,975	$ 1,958,330
Coverage Ratio	2.1	2.0	2.4	2.2	1.0
COMPONENT UNITS*					
Pledged Revenue Bond Amount	$ 42,905	$ 189,908	$ 145,536	$ 67,252	$ 82,195
Operating Expenditures	754	217			
Net Available Revenue	$ 42,151	$ 189,691	$ 145,536	$ 67,252	$ 82,195
Debt Service –					
Principal	$ 29,849	$ 92,259	$ 43,186	$ 34,956	$ 31,718
Interest	10,943	11,615	9,463	6,041	3,915
Total Debt Service	$ 40,792	$ 103,874	$ 52,649	$ 40,997	$ 35,633
Coverage Ratio	1.0	1.8	2.8	1.6	2.3
Total Combined Coverage Ratio	1.9	5.0	2.0	1.7	0.7

* Component unit amounts for 2007 were adjusted to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources. Operating expenditures include capital outlay expenditures.

Source: 2007 – 2016 state of Texas financial statements and bond reporting system

Texas Nonfarm Employment Detail: Number of Jobs

Calendar Years 2007 – 2016*

Employment by Industry	2007	2008	2009	2010	2011
GOODS-PRODUCING					
Natural Resources and Mining	205,383	227,017	198,675	202,642	233,458
Construction	648,150	673,475	597,517	564,167	563,792
Manufacturing					
Durables	619,692	614,142	543,067	524,050	549,983
Nondurables	319,300	314,800	299,783	293,158	291,450
Total, Goods-Producing	1,792,525	1,829,434	1,639,042	1,584,017	1,638,683
SERVICE-PROVIDING					
Trade, Transportation, and Utilities					
Wholesale Trade	512,750	523,542	494,333	491,692	510,900
Retail Trade	1,160,950	1,173,717	1,140,708	1,135,175	1,158,733
Transportation and Warehousing	387,572	392,440	371,950	370,689	385,302
Utilities	45,536	47,302	47,859	48,128	48,448
Information	220,983	217,183	204,258	195,725	195,717
Financial Activities					
Finance and Insurance	461,742	461,758	452,667	454,417	466,683
Real Estate and Rental and Leasing	182,225	185,258	175,375	170,983	174,117
Professional and Business Services					
Professional, Scientific and Technical	558,158	586,217	563,150	566,717	587,900
Management, Administrative and Support	747,966	755,517	694,508	713,708	757,900
Educational and Health Services					
Educational Services, Private	146,875	148,808	150,725	155,842	161,367
Health Care and Social Assistance	1,108,583	1,140,600	1,185,633	1,224,842	1,252,175
Leisure and Hospitality	979,792	1,006,250	1,005,717	1,007,892	1,041,433
Other Services	355,300	363,083	361,067	360,333	367,392
Government					
Federal Civilian	186,417	191,108	197,633	209,617	201,400
State	355,700	361,500	368,200	374,700	366,000
Local	1,189,200	1,223,100	1,251,900	1,272,200	1,253,300
Total, Service-Providing	8,599,749	8,777,383	8,665,683	8,752,660	8,928,767
Total Nonfarm Employment	10,392,274	10,606,817	10,304,725	10,336,677	10,567,450

Concluded on the following page

* Data in the table are annual averages. Prior years are subject to annual benchmark revisions.

** Data for 2016 includes estimates for the final month.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Source: Texas Workforce Commission and HIS Markit

Texas Nonfarm Employment Detail: Number of Jobs (concluded)

Calendar Years 2007 – 2016*

Employment by Industry	2012	2013	2014	2015	2016**
GOODS-PRODUCING					
Natural Resources and Mining	267,542	285,808	308,108	273,908	229,504
Construction	584,550	613,433	651,850	683,800	692,402
Manufacturing					
Durables	576,758	582,042	590,067	577,350	541,024
Nondurables	293,267	293,750	297,433	301,592	305,901
Total, Goods-Producing	1,722,117	1,775,033	1,847,458	1,836,650	1,768,831
SERVICE-PROVIDING					
Trade, Transportation, and Utilities					
Wholesale Trade	535,342	555,042	577,608	597,325	610,388
Retail Trade	1,184,383	1,219,508	1,256,425	1,296,650	1,328,393
Transportation and Warehousing	401,967	414,123	430,607	448,619	447,016
Utilities	48,383	48,752	48,935	49,481	50,811
Information	197,225	200,875	201,858	200,642	201,531
Financial Activities					
Finance and Insurance	481,617	495,967	503,933	519,158	533,179
Real Estate and Rental and Leasing	179,717	187,742	196,475	201,267	205,523
Professional and Business Services					
Professional, Scientific and Technical	621,633	646,300	679,025	707,325	726,221
Management, Administrative and Support	795,375	830,209	869,058	886,425	895,566
Educational and Health Services					
Educational Services, Private	166,542	173,942	180,358	187,508	197,593
Health Care and Social Assistance	1,280,275	1,312,242	1,342,200	1,393,783	1,449,098
Leisure and Hospitality	1,086,250	1,139,533	1,188,417	1,243,100	1,296,932
Other Services	382,658	396,875	409,683	418,058	425,024
Government					
Federal Civilian	199,258	197,142	193,233	194,242	198,042
State	361,700	363,200	363,900	365,700	373,500
Local	1,233,100	1,248,500	1,271,000	1,293,000	1,319,800
Total, Service-Providing	9,155,425	9,429,952	9,712,715	10,002,283	10,258,617
Total Nonfarm Employment	10,877,542	11,204,985	11,560,173	11,838,933	12,027,448

* Data in the table are annual averages. Prior years are subject to annual benchmark revisions.

** Data for 2016 includes estimates for the final month.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Source: Texas Workforce Commission and IHS Markit

Texas and U.S. Selected Statistics

Last Ten Calendar Years*

	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
Year	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
2007	23,891	2.0%	302,227	1.0%	$ 872,964	6.1%	$ 12,000,175	5.3%	$ 36,539	4.1%	$ 39,706	4.3%
2008	24,371	2.0%	304,948	0.9%	961,040	10.1%	12,502,225	4.2%	39,434	7.9%	40,998	3.3%
2009	24,857	2.0%	307,580	0.9%	910,108	(5.3)%	12,094,800	(3.3)%	36,614	(7.2)%	39,322	(4.1)%
2010	25,297	1.8%	310,109	0.8%	956,562	5.1%	12,477,125	3.2%	37,813	3.3%	40,235	2.3%
2011	25,710	1.6%	312,463	0.8%	1,047,017	9.5%	13,254,525	6.2%	40,724	7.7%	42,419	5.4%
2012	26,140	1.7%	314,780	0.7%	1,125,710	7.5%	13,915,125	5.0%	43,065	5.7%	44,206	4.2%
2013	26,565	1.6%	317,094	0.7%	1,148,929	2.1%	14,073,675	1.1%	43,250	0.4%	44,383	0.4%
2014	27,041	1.8%	319,504	0.8%	1,234,438	7.4%	14,809,750	5.2%	45,651	5.6%	46,352	4.4%
2015	27,529	1.8%	321,978	0.8%	1,289,604	4.5%	15,458,525	4.4%	46,845	2.6%	48,011	3.6%
2016**	28,006	1.7%	324,494	0.8%	1,324,223	2.7%	15,970,750	3.3%	47,284	0.9%	49,217	2.5%

* Prior years are subject to revisions.

** Numbers for 2016 include some estimates for the latter part of the year.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts

Texas and U.S. Employment and Unemployment Rates

Last Ten Calendar Years*

(Thousands of Jobs and Percent)

	Nonfarm Employment				Unemployment Percentage Rate	
Year	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
2007	10,393	3.3%	137,997	1.1%	4.3%	4.6%
2008	10,607	2.1%	137,241	(0.5)%	4.9%	5.8%
2009	10,305	(2.9)%	131,300	(4.3)%	7.6%	9.3%
2010	10,337	0.3%	130,353	(0.7)%	8.1%	9.6%
2011	10,567	2.2%	131,941	1.2%	7.7%	8.9%
2012	10,877	2.9%	134,173	1.7%	6.7%	8.1%
2013	11,205	3.0%	136,381	1.6%	6.1%	7.4%
2014	11,560	3.2%	138,939	1.9%	5.0%	6.2%
2015	11,839	2.4%	141,833	2.1%	4.5%	5.3%
2016**	12,027	1.6%	144,313	1.7%	4.5%	4.9%

* Prior years numbers are subject to benchmark revisions.

** Texas numbers for 2016 include an estimate for the final month of the year.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics.

STATE OF TEXAS

Statistical Section – Operating Information

Full-Time Equivalent Employees by Function

Last Ten Fiscal Years

FUNCTION	2007	2008	2009	2010	2011	2012	2013	2014
General Government	13,438	13,155	13,720	13,801	13,692	12,955	13,036	12,786
Education	146,944	152,121	156,375	159,918	161,636	161,670	163,239	165,199
Employee Benefits	302	311	325	344	338	334	335	342
Teacher Retirement State Contributions	445	454	476	496	514	515	533	584
Health and Human Services	50,910	53,161	56,067	58,071	58,717	57,790	57,437	57,659
Public Safety and Corrections	50,889	50,340	52,165	53,209	51,771	52,310	50,050	49,996
Transportation	14,748	14,148	13,257	12,692	12,513	12,436	12,456	12,456
Natural Resources and Recreation	8,014	8,264	8,484	8,646	8,388	7,855	7,930	8,070
Regulatory Services	3,828	3,891	4,048	4,052	3,942	3,841	3,819	3,867
Total FTEs	289,518	295,845	304,917	311,229	311,511	309,706	308,835	310,960
Percentage Change	1.3%	2.2%	3.1%	2.1%	0.1%	(0.6)%	(0.3)%	0.7%

FUNCTION	2015*	2016
General Government	9,366	9,366
Health and Human Services	54,356	54,357
Education	170,640	176,526
Judiciary	1,719	1,754
Public Safety and Criminal Justice	50,134	51,552
Natural Resources	8,180	8,180
Business and Economic Development	15,881	16,072
Regulatory	3,469	3,490
The Legislature	2,218	1,972
Total FTEs	315,963	323,269
Percentage Change	1.6%	2.3%

Source: Texas State Auditor's Office (SAO) – *Functions were updated in 2015 to match SAO functions by Article Number.

STATE OF TEXAS

Statistical Section – Operating Information

Capital Asset Statistics by Function

Last Ten Fiscal Years*

Function	2007	2008	2009	2010	2011
GENERAL GOVERNMENT					
Number of Texas Facilities Commission Owned Facilities	75	137	137	133	133
State Real Property Inventory in Acres	1,322,123	1,325,319	1,329,671	1,342,038	1,333,113
EDUCATION					
Number of School Districts	1,031	1,031	1,031	1,030	1,029
Number of Students	4,576,933	4,671,493	4,749,571	4,847,844	4,933,617
Number of Higher Education Institutions	145	145	145	148	148
HEALTH AND HUMAN SERVICES					
Number of State Mental Health Facilities	39	39	39	39	39
Number of State Hospitals	10	11	11	11	11
PUBLIC SAFETY AND CORRECTIONS					
Number of State Prisons – Texas Department of Criminal Justice only	106	112	113	112	112
Number of Available Beds (Capacity)	156,652	160,622	159,656	159,771	163,144
Number of Authorized Vehicular State Patrol Units	1,281	1,281	1,494	1,811	1,572
TRANSPORTATION					
Centerline Miles of Highways**	79,975	80,067	79,903	79,992	80,233
Number of Bridges***	32,996	33,118	33,393	33,679	33,883
NATURAL RESOURCES AND RECREATION					
Number of State Parks Managed	110	93	93	93	93
Number of Park Acreage	602,892	605,470	614,790	604,799	621,491

Concluded on the following page

* Prior years are subject to revisions.

** Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway). Texas Department of Transportation (TxDot) transitioned to a new roadway inventory system (GRID) in 2015, due to this there were no mileage changes between 2014 and 2015. Mileage for 2016 is not available until June, 2017.

*** Number of bridges are the bridges owned by the state. TxDot also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency websites.

Capital Asset Statistics by Function (concluded)

Last Ten Fiscal Years*

Function	2012	2013	2014	2015	2016
GENERAL GOVERNMENT					
Number of Texas Facilities Commission Owned Facilities	131	131	210	210	204
State Real Property Inventory in Acres	1,342,680	1,554,664	1,559,615	1,210,769	1,212,174
EDUCATION					
Number of School Districts	1,244	1,245	1,238	1,225	1,225
Number of Students	4,978,120	5,058,939	5,135,880	5,215,282	5,284,252
Number of Higher Education Institutions	148	148	148	147	147
HEALTH AND HUMAN SERVICES					
Number of State Mental Health Facilities	39	39	38	38	38
Number of State Hospitals	11	12	12	12	12
PUBLIC SAFETY AND CORRECTIONS					
Number of State Prisons – Texas Department of Criminal Justice only	111	111	109	109	109
Number of Available Beds (Capacity)	162,057	161,168	156,756	155,634	155,534
Number of Authorized Vehicular State Patrol Units	1,791	1,791	1,804	1,804	2,104
TRANSPORTATION					
Centerline Miles of Highways**	80,268	80,323	80,423	80,423	N/A
Number of Bridges***	34,337	34,576	34,892	35,753	36,008
NATURAL RESOURCES AND RECREATION					
Number of State Parks Managed	94	95	95	95	95
Number of Park Acreage	624,602	630,394	630,597	636,213	637,491

* Prior years are subject to revisions.

** Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway). Texas Department of Transportation (TxDot) transitioned to a new roadway inventory system (GRID) in 2015, due to this there were no mileage changes between 2014 and 2015. Mileage for 2016 is not available until June, 2017.

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Source: Various state agencies and official state agency websites.

STATE OF TEXAS

Statistical Section – Operating Information

Operating Indicators by Function

Last Ten Fiscal Years

Function	2007	2008	2009	2010	2011
GENERAL GOVERNMENT / REGULATORY SERVICES					
Number of Tax Returns Processed	4,251,103	4,054,947	4,471,082	4,594,272	4,642,495
Number of Licenses Issued*	1,166,069	1,243,330	1,303,738	1,332,803	1,390,890
EDUCATION					
Average Daily School Attendance (ADA)	4,260,406	4,326,176	4,420,134	4,506,950	4,592,226
Percent of Students Passing TAKS Test**	70%	72%	74%	77%	76%
Percent of Students Passing STAAR Test**	N/A	N/A	N/A	N/A	N/A
Texas Higher Education Enrollments*	1,228,897	1,264,286	1,366,436	1,464,081	1,509,098
Higher Education Degrees Awarded***	193,321	198,298	209,868	256,635	238,665
HEALTH AND HUMAN SERVICES					
Number of Medicaid Clients Served****	2,832,214	2,877,203	3,002,731	3,296,439	3,541,286
Number of TANF Clients Served ****	145,838	125,309	113,786	121,290	116,386
Number of Immunizations	12,827,417	12,771,928	12,734,334	14,412,427	12,258,819
PUBLIC SAFETY AND CORRECTIONS					
Number of New Prison Population	73,525	74,283	72,738	72,315	73,988
Number of Prison Population Released	72,032	72,002	72,218	71,063	70,916
Average Daily Prison Population	152,805	155,588	155,432	154,315	155,830
Authorized Number of Troopers Patrolling Texas Highways	1,689	1,709	1,825	1,814	1,794
TRANSPORTATION					
Number of Construction Project Preliminary Engineering Plans Completed	877	694	710	1,169	944
Number of Lane Miles Receiving Roadway Surface Improvements: – By Contract	13,197	8,462	15,671	16,160	14,749
– Via State Sources	5,984	6,344	5,910	6,718	8,389
Number of Vehicles Registered	21,432,773	24,359,319	24,607,246	21,570,282	21,939,786
NATURAL RESOURCES AND RECREATION					
Number of State Parks Visits (in Millions)	4.9	4.3	4.5	4.4	4.3
Number of Parks and Wildlife Licenses Issued*****	2,665,045	2,892,695	2,932,002	2,749,336	2,873,967

Concluded on the following page

* Current year numbers are estimated. Numbers from prior years may change due to updated numbers.

** The Texas Assessment of Knowledge and Skills (TAKS) was phased out beginning in 2012 and was replaced by the State of Texas Assessments of Academic Readiness (STAAR). Due to the transition, ratings were suspended in 2012 while a new accountability system was developed. The new STAAR state rating system became effective in 2013.

*** The 2016 degrees conferred will not be available until later in 2017.

**** Medicaid average monthly caseload is based on data through November 2016. Fiscal 2015 data was finalized April 2016, and fiscal 2016 data will be finalized March 2017. TANF is based on data through November 2016.

***** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites. Prior years are subject to revisions.

Operating Indicators by Function (concluded)

Last Ten Fiscal Years

Function	2012	2013	2014	2015	2016
GENERAL GOVERNMENT / REGULATORY SERVICES					
Number of Tax Returns Processed	4,820,459	5,054,013	5,026,391	5,212,002	5,349,832
Number of Licenses Issued*	1,472,342	1,485,193	1,253,959	1,293,917	1,323,300
EDUCATION					
Average Daily School Attendance (ADA)	4,633,341	4,699,372	4,780,813	4,854,882	4,924,589
Percent of Students Passing TAKS Test**	N/A	N/A	N/A	N/A	N/A
Percent of Students Passing STAAR Test**	N/A	77%	77%	77%	75%
Texas Higher Education Enrollments*	1,457,502	1,453,630	1,465,870	1,489,525	1,529,406
Higher Education Degrees Awarded***	251,098	263,371	271,155	255,542	N/A
HEALTH AND HUMAN SERVICES					
Number of Medicaid Clients Served****	3,652,489	3,653,935	3,740,768	4,051,566	4,055,912
Number of TANF Clients Served ****	107,288	93,988	80,803	70,095	62,848
Number of Immunizations	13,393,087	15,225,244	15,883,882	16,253,233	16,022,679
PUBLIC SAFETY AND CORRECTIONS					
Number of New Prison Population	74,232	71,713	71,325	69,066	67,492
Number of Prison Population Released	77,316	72,071	70,521	70,311	67,603
Average Daily Prison Population	154,933	151,265	150,620	149,159	147,510
Authorized Number of Troopers Patrolling Texas Highways	1,791	1,791	1,804	1,804	2,104
TRANSPORTATION					
Number of Construction Project Preliminary Engineering Plans Completed	750	905	769	907	773
Number of Lane Miles Receiving Roadway Surface Improvements: – By Contract	18,693	17,941	17,054	18,299	30,605
– Via State Sources	9,643	8,941	7,939	8,005	7,268
Number of Vehicles Registered	22,618,153	23,227,032	23,886,263	23,751,503	24,076,240
NATURAL RESOURCES AND RECREATION					
Number of State Parks Visits (in Millions)	4.3	4.5	4.6	4.5	5.0
Number of Parks and Wildlife Licenses Issued*****	2,891,267	2,961,781	3,028,100	3,093,641	3,186,072

* Current year numbers are estimated. Numbers from prior years may change due to updated numbers.

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***** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites. Prior years are subject to revisions.

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